Report covers 1990/91 yr.

# AUDITOR GENERAL

## *Annual Report*

*to the Legislative Assembly of British Columbia*

*June 1992*

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# Auditor General

## *Annual Report*

*to the*
*Legislative*
*Assembly of*
*British Columbia*

*June 1992*

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The Honourable Glen D. Clark
Minister of Finance and Corporate Relations
Province of British Columbia

Sir:

I have the honour to transmit herewith my Annual Report to the Legislative Assembly, to be laid before the Assembly in accordance with the provisions of section 10 of the Auditor General Act.

George L. Morfitt, FCA
Auditor General

Victoria, British Columbia
July 1992

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# AUDITOR GENERAL'S OVERVIEW

AUDITOR GENERAL BRITISH COLUMBIA

# AUDITOR GENERAL'S OVERVIEW

My 1992 Annual Report to the Legislative Assembly provides information, observations and recommendations relating to the audits of government and government organizations undertaken by my Office during the past year.

As an officer of the Legislative Assembly, I am responsible for the regular examination of the accounts and records of the government. I provide my audit opinions on the financial statements of the Province, and report to the Assembly any significant errors, inadequacies or improprieties relating to the government's stewardship of public resources.

In addition, I am authorized to provide my assessment of the government's accounting policies, and of the extent to which government programs are being administered economically and efficiently.

My Office carries out a multi-faceted program which includes:

- audits of the annual financial statements of the provincial government and of related government organizations;
- value-for-money audits;
- compliance-with-authorities audits; and
- reviews of internal controls in financial systems.

Through this program, I endeavor to provide the Legislature with independent assurance that the financial information provided to it by the government is credible, and that the government has spent tax dollars economically, efficiently, and for the purposes intended by the Legislature.

## 1990-91 Public Accounts

In the past, the annual Public Accounts have normally been issued at the beginning of the spring session of the Legislative Assembly, a date usually some 12 months after the applicable fiscal year-end. This year, the Province's 1990-91 Public Accounts were issued on December 30, 1991. In light of this earlier date of publication, and in the interest of providing the Members of the Legislative Assembly, and the general public, with timely access to my observations on the information contained in the Public Accounts, I issued

in January, 1992 a separate public report on the 1990-91 Public Accounts.

For purposes of consolidation and convenience, I have included the content of my January, 1992 report as Part III of this Annual Report.

I wish to again make note of the fact that my audit opinions on the government's three main sets of financial statements each contain a reservation, or qualification, as to the fair presentation of those statements. The reservations concern the fact that the government's liability for the unfunded portion of pension benefits earned by its employees has not been recorded in the accounts of the province. The liability was approximately $441 million as at March 31, 1990, the date of the latest actuarial valuation.

## Financial Review

Earlier this year the government received a series of consultants reports on the state of government finances and financial management. The reports were the result of a comprehensive, wide-ranging review commissioned by the government shortly after taking office in the fall of 1991. The Minister of Finance and Corporate Relations, in presenting the government's 1992-93 budget to the Legislative Assembly, advised of the acceptance of certain of the recommendations arising from the financial review. As well, a special committee has been established to consider the review recommendations and to monitor their implementation. My Office, over the coming months, will itself be monitoring and reporting on the government's progress in this area.

## Value for Money

Part I of this Report contains the results of the value-for-money audits carried out by my Office over the past year. These audits are designed to assess whether programs implemented to achieve government policies are being administered economically and efficiently. They are also concerned with whether members of the Legislative Assembly and the public are provided with appropriate accountability information about government programs.

Each year we select for audit a number of the larger or more significant government programs or functions. Because there are a large number of such programs and functions throughout government, we conduct our value-for-money audits on a cyclical basis. This year we conducted audits in the Ministry of Social Services and in the Ministry of Forests.

We conducted three audits in the Ministry of Social Services. In the first audit, we assess how the ministry provides income assistance benefits and how it assists those on income assistance to be less dependent on the program. The second audit evaluates how the ministry manages contract residential services for children in care and the mentally handicapped. The third examines the ministry's human resource management processes for its social workers. This year's audit in the Ministry of Forests completes our audit coverage in that ministry which began last year. Our audit this year reviews how the ministry determines its human resource needs, and how it allocates the human resources available to ministry field operations.

I stated in my Annual Report last year that the extent of value-for-money auditing carried out by my Office was far less complete than I considered desirable to meet the legitimate interests of the Members of the Legislative Assembly. I believe the audit coverage provided by the four audits we were able to conduct this year remains considerably less than is desirable, given the large number of government programs and functions.

Also included in Part I of this Report is a description of the work we have been carrying out to encourage better

accountability reporting by government. Currently, there is neither legislation nor established tradition that requires public sector managers to report on their value-for-money stewardship on a systematic basis. Government managers are clearly responsible for managing in a way that makes best possible use of public funds, and are accountable for the prudent and effective use of the resources entrusted to them. However, there is no requirement for them to report on this important management responsibility. My Office has been encouraging the development of an accountability framework that would include management representations as to whether money has been spent wisely. I firmly believe that an accountability framework that provides people with fair and credible accountability information is desirable to promote public trust in, and acceptance of, our democratic institutions.

## Compliance, Control and Accountability

In Part II of this Report, I provide the results of studies undertaken by my Office relating to a wide variety of government operations. These studies focus on the compliance-with-authorities, internal control and accountability information aspects of those operations.

The issue of the use of special warrants to authorize government expenditures is discussed in the report on our audit of compliance with Part IV of the *Financial Administration Act*. It is a subject which I believe would benefit from timely consideration by the government and the Legislative Assembly.

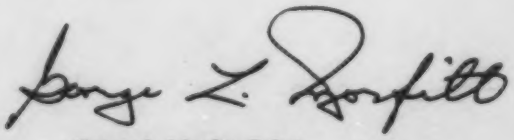
The importance of an accountability reporting framework for government agencies is highlighted both in our review of Music '91 and in our study of the risks associated with the establishment and operation of Crown societies. This issue also was raised in my 1990 Annual Report concerning the accountability of Crown corporations, and is one to which I hope the government and Legislative Assembly will give serious attention.

## The Work of My Office

Part IV provides information on the mandate, mission and operation of my audit office. My staff continue to take a leadership role in the conduct of public sector auditing in Canada, and I am committed to ensuring that this position is maintained for the benefit of the Legislative Assembly and the citizens of British Columbia.

In the Overview to my 1991 Annual Report I observed that, in my view, there exists at the present time an insufficient program of comprehensive auditing of government and its related entities by the Office of the Auditor General. As the number of staff approved for my Office remains fewer than were authorized some ten years ago, this problem remains unresolved.

I wish to express my appreciation for the cooperation extended to my Office by officials of ministries, agencies and other public bodies audited. I also acknowledge the professional dedication of my staff in the carrying out of their audit responsibilities on behalf of the people of British Columbia.



*George L. Morfitt, F.C.A.*
*Auditor General*

*Victoria, British Columbia*
*June 1992*

# PART I
# VALUE-FOR-MONEY AUDITS

# PART I
# VALUE-FOR-MONEY AUDITS

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# INTRODUCTION TO VALUE-FOR-MONEY AUDITS

This year's Annual Report contains the results of value-for-money audits conducted in the Ministry of Social Services and in the Ministry of Forests.

We conducted three audits in the Ministry of Social Services as part of our continuing program of auditing, on a cyclical basis, the larger and more significant programs and functions administered by government.

Each of the three audits in the Ministry of Social Services deals with a different aspect of ministry operations. The first audit examines how the ministry provides income assistance benefits and how it assists those on income assistance to be less dependent on the program. The second audit assesses how the ministry manages contract residential services for children in care and the mentally handicapped. The third evaluates the ministry's human resource management processes for its social workers.

Our audit this year in the Ministry of Forests completes our audit coverage in that ministry which began last year. We included the results of the three audits completed last year in our 1992 Annual Report. The audit we undertook this year examines how the ministry determines its human resource needs, and how it allocates the human resources available to it to ministry field operations.

We have also included in this Part of our Report, immediately following this introduction, a description of the work we have been carrying out to encourage better accountability reporting by government. Currently, there is neither legislation nor established tradition that requires public sector managers to report on their value for money stewardship on a systematic basis. Government managers are clearly responsible for managing in a way that makes best possible use of public funds, and are accountable for the prudent and effective use of the resources entrusted to them. However, there is no requirement for them to report on this important management responsibility. Our Office has been encouraging the development of an accountability framework that would include management representations as to whether money has been spent wisely.

At the conclusion of each value-for-money audit, we provide those responsible for managing the program which was audited with an opportunity to respond to our audit reports. The responses received from the ministry are published directly following our reports on the audits conducted in that ministry.

It takes time to implement the recommendations that arise from value-for-money audits. Consequently, when ministries first respond to our reports, just after the audits have been completed, they frequently are only able to indicate their intention to resolve the matters raised by our audits, rather than

describing their actions in doing so. Due to the nature of value-for-money audits and the matters raised by them, we usually only follow up on these audits when the next audit of the program area is undertaken. Without further information, however, legislators and the public would not be aware of the nature, extent and results of management's remedial actions. Therefore, we believe it is useful to obtain and publish updates of management's responses to the value-for-money audits we reported in the preceding year.

The written comments received from the ministries that were the subject of value-for-money audits last year are published at the conclusion of this part of our Report.

# IMPROVING THE FINANCIAL ACCOUNTABILITY OF GOVERNMENT

A consistent theme of our value-for-money audit work over the past 12 years has been the accountability reporting of government to the members of the Legislative Assembly and the public. We have included a section on accountability in most of our audit reports. We have also reported on studies we undertook that examined accountability reporting by ministries, Crown corporations and Crown societies.

Accountability is the obligation of one party to answer for a responsibility that has been conferred on it by another. The accountability of government to the Legislative Assembly and to the citizens of the province is a fundamental element of our democratic system. People expect the government to establish an accountability framework that ensures they are provided with fair and credible information on a variety of financial and non-financial matters for which the government holds management responsibility.

The accountability process should provide people with the information they need. Until relatively recently, the major focus of government financial accountability was compliance with authorized spending and financing limits. The size and complexity of governments in Canada have changed over the past several decades, however. Increased demands for services have broadened the scope and variety of government programs. This has resulted in a rapid rise in the level of government expenditure and in sizable government deficits.

The spectre of increased taxes or reduced programs has focused attention on the quality of government administration, and broadened the public's view of what constitutes acceptable accountability reporting. People now demand to know whether their money has been spent wisely. However, although there is a demand for more and better accountability information, the accountability mechanisms of government have not changed substantially. This has left people questioning the accountability reporting they currently receive and demanding a more open and accountable administration.

In the work we have undertaken that examined accountability reporting, we have consistently found a need to improve the quality and reliability of accountability information. Some of the conclusions we reached are set out below.

1985: Ministry Annual Reports:

> "...the annual reports do not give the Legislative Assembly and the public the information necessary to judge whether they are being well served by ministries."

1989: Control of the Public Purse by the Legislative Assembly:

> "...we believe that additional details are needed about the estimated expenditures, objectives, and expected results of individual programs to give the Legislative Assembly a good understanding of government programs, and to establish a satisfactory basis for subsequent accountability."

1990: Accountability of Crown Corporations to the Legislative Assembly:

> "...in general they are not providing enough information to the Legislative Assembly about what they intend to achieve... Non-financial information...is often presented in an unsystematic way, making it hard for the reader to evaluate whether corporations are progressing towards their objectives."

It is interesting to note that in the review of Crown corporation accountability, we found that financial information provided by Crown corporations was generally adequate. This may be attributed to the fact that there is a framework that Crown corporations must follow when they prepare reports on their financial affairs. Their financial statements have to conform to generally accepted accounting principles. Similarly, Government financial statements follow guidelines which standardize the information provided. As a result of these standards being developed and introduced, public sector financial reporting has improved substantially in the last decade.

We believe similar guidance is needed with respect to disclosure of performance information, so that the quality of non-financial information can improve to the level of financial information. The recent financial review of government operations carried out by independent consultants reached a similar conclusion. In their report titled *The Issue of Financial Control*, the consultants reported that the government lacked an effective accountability model and pointed to some of the problems that resulted from this deficiency.

Part of the reason for the lack of proper performance reporting has been the absence of an agreed upon framework for accountability reporting in the public sector. In recent years, however, a framework has been developed which is gaining acceptance in Canada. It is known as the "Twelve Attributes of Effectiveness" (Table 1.1). This framework is the result of research conducted by a panel of senior executives sponsored by the Canadian Comprehensive Auditing Foundation. In our 1990 report on accountability of Crown corporations, we endorsed this framework as a suitable basis for Crown corporation accountability reporting. The consultants who conducted the independent financial review also mentioned the 12 Attributes framework as a potential evaluation framework.

The framework has many virtues. It is pragmatic and flexible, while offering a complete analysis of effectiveness for public sector organizations. It has great potential as a management tool, and as a basis for reporting objectively and clearly to the Legislative Assembly and the public.

For the past several years our Office has been making a special effort to bring the framework to the attention of government and senior managers across the public sector in British Columbia. In recent months, we have presented information about the framework to several ministries, Crown corporations,

**Management Direction**
The extent to which the objectives of an organization, its management, and employees are clear, well integrated and understood, and appropriately reflected in the organization's plans and structure.

**Relevance**
The extent to which an activity continues to make sense in regard to the problems or conditions to which it is intended to respond.

**Appropriateness**
The extent to which the design of an activity and the level of effort being made are logical in light of the specific objectives to be achieved.

**Achievement of Intended Results**
The extent to which objectives have been realized.

**Acceptance**
The extent to which customers for whom an activity or line of business is designed judge it to be satisfactory.

**Secondary Impacts**
The extent to which other significant consequences, either intended or unintended and either positive or negative, have occurred.

**Costs and Productivity**
The relationships among costs, inputs and outputs.

**Responsiveness**
An organization's ability to adapt to changes in such factors as markets, competition, available funding, or technology.

**Financial Results**
The matching of, and the accounting for, revenues and costs, and the accounting for and the valuation of assets, liabilities and equity.

**Working Environment**
The extent to which an organization provides an appropriate work atmosphere for its employees, provides appropriate opportunities for development and achievement, and promotes commitment, initiative and safety.

**Protection of Assets**
The extent to which important assets are safeguarded.

**Monitoring and Reporting**
The extent to which an organization monitors and reports on its own effectiveness.

**TABLE 1.1**

The Proposed Attributes of Effectiveness

*Source: Canadian Comprehensive Auditing Foundation*

and other agencies. We have also provided information about the framework to the British Columbia Royal Commission on Health Care and Costs, and made presentations to the government and central agencies. Additionally, we have assisted a number of organizations in the implementation of the framework.

The government has also demonstrated an interest in the

framework. A number of agencies are considering the use of the framework as a basis for reporting their performance to Treasury Board. Also, the Internal Audit Division of the Office of the Comptroller General has conducted some pilot projects for implementation of the framework in ministries.

Building from these initiatives, we hope to see the framework used, not just inside government, but for reporting to the Legislative Assembly and the public. If this happens, the government will have moved a significant ways towards providing people with fair accountability reporting. The second attribute people are looking for in accountability information is credibility. We believe our Office has a proper role to play in ensuring that the information provided by government is objective, fair and complete.

> "Audit is a process that is superimposed on an accountability relationship. It is carried out to establish that a report on the responsibility assumed is a correct or fair one and is usually performed by a third party, primarily serving the interests of the party who delegated the responsibility."
>
> — *Report of the Independent Review Committee on the Office of the Auditor General of Canada, 1975.*

The Auditor General represents the interests of the Legislative Assembly. In the event of the framework becoming a basis for accountability reporting to the Legislative Assembly, it will be appropriate for our Office to express opinions as to the fairness of the information contained in the accountability reports provided to the Assembly and the public. In the coming year, our Office will be working to develop an appropriate audit methodology for the framework. We will also continue to work with the government in promoting awareness and acceptance of the framework.

Careful planning will be needed to ensure that the framework succeeds. As the designers of the framework noted, implementation will involve experimentation. They commented that there may be differences in the degree of precision with which information is provided, but that over time, it is expected that reporting abilities will improve. Success of the framework also depends ultimately on its genuine acceptance by management.

> "...few organizations can be expected to adopt the propositions unquestioningly or to implement them quickly. There will be both proponents and doubters. As with any new system, it will take time to experiment with the concepts, achieve consensus, adjust roles and processes, and influence the behavior of participants to reinforce a consistent approach. Nevertheless, improved accountability and decision-making is of such importance to our country that we must try to move in these directions."
>
> — Canadian Comprehensive Auditing Foundation, *Effectiveness Reporting and Auditing in the Public Sector, 1987.*

Introduction of the framework will need to be sensitively handled, to avoid going the way of other well-intentioned attempts at reform in the public sector. Also, auditing the information contained in the management reports generated under the framework is relatively uncharted territory. There is a need for trial and error experiments before high quality reporting and auditing under the framework will develop. Much goodwill will be required on the part of both managers and auditors.

We believe improved accountability reporting can be achieved. Progress is being made in other jurisdictions, both in Canada and in other countries, towards a more rigorous approach to accountability reporting. Experience in these jurisdictions has shown that it does take time and effort to make performance reporting more relevant and useful.

We, therefore, recommend that the policy developed by the government for introducing the framework be flexible, while retaining an overall sense of direction. To that end, we think the government should endorse the 12 Attributes framework as a basis for future accountability reporting, but refrain from mandatory broad introduction before management groups are ready for it. We believe, however, that eventually it will be necessary to support the framework in legislation, such as the *Financial Administration Act*, when it is evident that the framework has been proven valuable across government.

The sufficiency and appropriateness of accountability relationships between and among the Legislative Assembly, government ministries, central agencies, Crown corporations and other government entities is an issue in which the new government has expressed a strong interest.

Our office is on record as supporting the undertaking of a comprehensive study of public sector accountability. We would be pleased to assist in any review that might be undertaken to establish an accountability framework that would provide people with fair and credible accountability information. In the end, we believe this will promote public trust in, and acceptance of, our democratic institutions.

# MINISTRY OF SOCIAL SERVICES

## INTRODUCTION

In 1991, we undertook a value-for-money audit in the Ministry of Social Services (then the Ministry of Social Services and Housing). The ministry provides assistance to the people of British Columbia in times of need. This includes, for low income earners, financial assistance, employment training, and services to obtain family maintenance payments. In addition, it provides social services to families and children facing difficulties and to persons with mental handicaps.

Of the $15 billion spent on provincial government programs in the 1990/91 fiscal year, $1.7 billion was spent by the Ministry of Social Services (Figure 1.1).

The federal government contributes a significant share of the ministry's operation and program costs under a number of agreements for shared programs. Approximately $720 million of the $1.7 billion in ministry spending was reimbursed by the federal government under the Canada

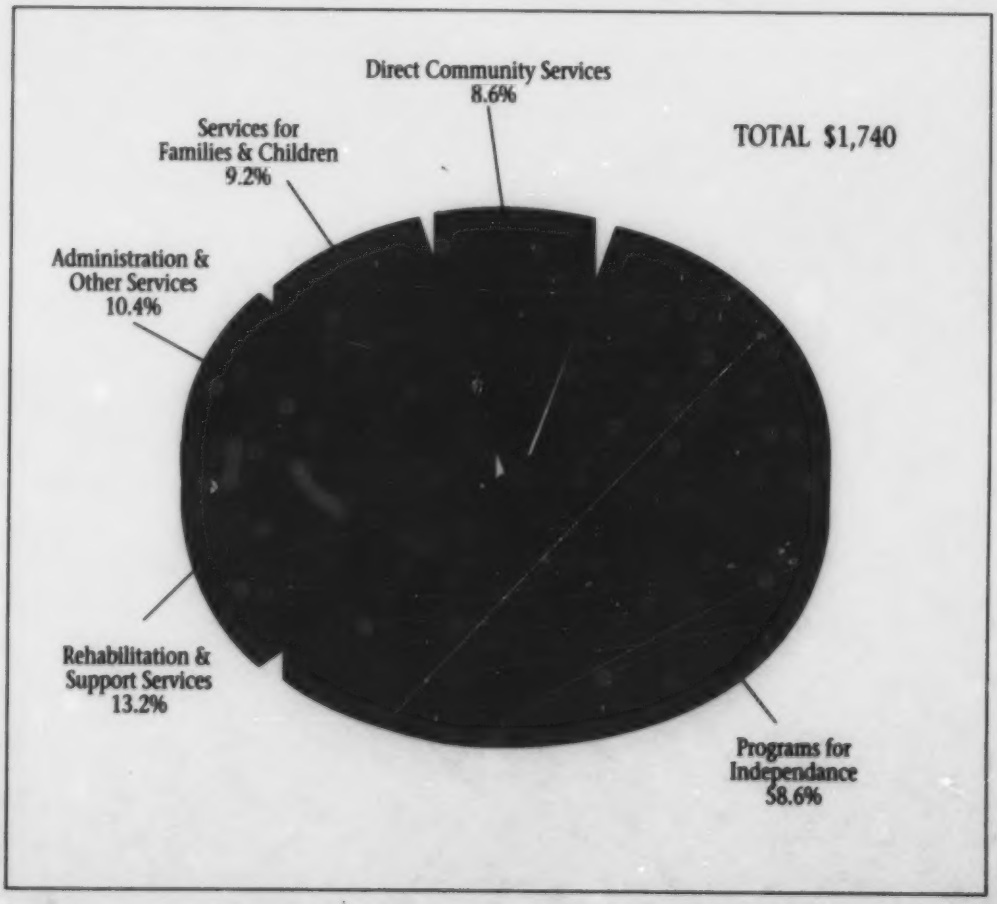



**FIGURE 1.1**

Ministry Expenditures by Major Program Division ($ in millions)

*Source: Province of British Columbia Public Accounts 1990/91 Fiscal Year*

Assistance Plan for the 1990/91 fiscal year.

The ministry's programs are managed through a decentralized structure which divides the province into 10 regions. Each region has a number of area offices that usually specialize in services for one of the following: income assistance, families and children, or persons with mental handicaps. Each area, in turn, is divided into local districts.

Programs for Independence are provided by district staff who assess whether applicants meet the requirements for income assistance under the *Guaranteed Available Income for Need Act (GAIN Act)* and regulations. Qualifying individuals receive assistance for food, clothing, and shelter in the form of either a cheque or vouchers. Where appropriate, they can also be referred for assistance in gaining employment or family maintenance payments. District staff are also responsible for monitoring the efforts of income assistance recipients to reduce their dependence on ministry assistance.

Services for Families and Children are provided through district offices where social workers investigate reports of children at risk to establish whether their safety is compromised. Where considered appropriate, suitable services can be provided to maintain the family unit. In other cases, children can be taken into the care of the Superintendent of Family and Child Services and placed in substitute residences until family circumstances improve. The *Family and Child Service Act* governs decisions made in this area. When children are to be placed for adoption, district social workers are responsible for finding suitable guardians for them under the authority of the *Adoption Act*. The social workers are also responsible for monitoring the welfare of children for whom they have made these decisions.

Services to people with mental handicaps, included in Rehabilitation and Support Services, are provided through district offices where social workers assess the needs of mentally handicapped children and adults who have been referred for help. Social work staff in these programs are responsible for finding and coordinating suitable services for each qualifying individual and then monitoring the quality of care provided. Services range from those designed to assist families to care for their children at home, to residential care and self-help skills for individuals living on their own. Other Rehabilitation and Support Services include regular day care programs, support to children with special needs, and funding to assist non-profit societies in offering community-based services such as crisis centres and services to the handicapped.

Direct Community Services includes the salaries and expenses of ministry staff in field offices, and the rental and maintenance of related office space.

Administration and Other Services includes the salaries of head office staff, services to seniors, health care and dental services, and ministry housing programs (which have since been transferred to the Ministry of Municipal Affairs, Recreation and Housing).

We carried out three value-for-money audit projects in the ministry, the results of which are reported in this section. These are:

- **Programs for Independence**—how the ministry ensures it provides income assistance to the right people in the right amounts, and how it helps those people become less dependent on income assistance.

- **Residential Services**—how the ministry manages contract residential services for children in care and the mentally handicapped.
- **Managing Professional Resources**—how the ministry manages professional social work staff who provide services in programs for families and children and for the mentally handicapped.

## MINISTRY OF SOCIAL SERVICES

# PROGRAMS FOR INDEPENDENCE

*An audit of how the ministry ensures that it provides income assistance to the right people in the right amounts, and of how it helps those people become less dependent on income assistance*

## AUDIT PURPOSE AND SCOPE

We conducted this audit to determine whether the ministry has adequate procedures to minimize incorrect payments of income assistance and to help recipients reduce their dependence on income assistance.

We carried out our audit between June and October 1991. Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

## OVERALL CONCLUSION

The ministry's procedures for dealing with income assistance payments appear to be reasonable for minimizing incorrect payments. However, because the ministry does not attempt to estimate the total extent of incorrect payments made, it cannot show with any degree of certainty how well the procedures are actually working. This lack of information also makes it difficult for the ministry to decide whether it is cost-effective to increase or decrease the application of procedures designed to reduce errors.

The ministry has reasonable procedures which, in some cases, have helped individuals to obtain employment and maintenance payments and to reduce dependence on income assistance. It has also performed research studies and developed some performance indicators to evaluate how well individual procedures are working. However, this information is not yet refined enough to enable the ministry to assess the efficiency of individual initiatives or the cost-effectiveness of increasing efforts to reduce dependence.

## Providing Programs for Independence

During the 1990/91 fiscal year the ministry spent about $1 billion providing financial help to British Columbians in need. Under the Canada Assistance Plan, the province recovered approximately 50% of these expenditures from the federal government.

The ministry is authorized by the *Guaranteed Available Income for Need Act (GAIN Act)* to provide needy individuals with income assistance as well as services to reduce their dependence on this source of income. The types and amounts of assistance and support services to be provided by the ministry are described in the Act and its regulations. The ministry carries out this mandate through its Programs for Independence (PFI), which provide British Columbians in need with a basic income and help in becoming independent and self-supporting. The ministry's goals for its PFI are "to provide financial assistance and support services to eligible individuals, and to assist those persons to retain or regain financial independence."

The Income Assistance Program provides money in the form of "Temporary Assistance," "Income Assurance," and "Allowances and Grants." Temporary Assistance pays for food, clothing and shelter for people who are expected to eventually become independent of the program. On average, there are about 100,000 people in this program at any one time. Approximately $800 million was spent during the 1990/91 fiscal year.

Income Assurance provides for food, clothing and shelter as well, but is paid primarily to people with handicaps and to seniors who do not receive Old Age Security. The average number of people in this program is about 20,000. Approximately $150 million was spent during the 1990/91 fiscal year.

*Courtesy of the Ministry of Social Services*

Allowances and grants provide for emergency shelters and sporadic expenses not otherwise covered by regular assistance payments, such as the cost of starting dependent children in school. Approximately $30 million was spent during the 1990/91 fiscal year.

To meet its PFI goals, the ministry has determined that it must assess the needs and eligibility of applicants in a way that ensures both the accuracy of the assessments and the timely, respectful provision of assistance. Criteria used to determine a person's eligibility are described in the *GAIN Act* regulations. They include citizenship, monthly income, assets, and eligibility for other income supports.

The PFI are delivered through a decentralized organizational structure. Each of the 10 regions in the province has 3 or 4 PFI area offices. In turn, each area office monitors the work of 4 or 5 PFI district offices. In all, 135 district offices are delivering PFI. Each district office has a District Supervisor, several Financial Assistance Workers, one Rehabilitation Officer, and access to one or more Ministry Investigators and Family Maintenance Workers.

Financial Assistance Workers screen applicants for income assistance to assess their eligibility according to the *GAIN Act* regulations (Figure 1.2). Applicants deemed ineligible are given the reason(s) for the rejection, and are informed of their right to appeal. An appeal kit is provided containing the necessary information and forms required to appeal the decision.

Several methods are used to verify information provided at the time of application and to monitor ongoing eligibility. If a financial worker or a member of the public reports suspicions of fraud by an individual receiving income assistance, a Ministry Investigator is assigned to the case to determine whether fraud or overpayment has occurred.

The ministry has two main initiatives for providing a range of services and benefits to help people reduce their dependence on income assistance: the Employment Initiatives Program and the Family Maintenance Program.

The first includes wage subsidies, funding for education and retraining, and employment incentives. Approximately $40 million was spent on training contracts and allowances during the 1990/91 fiscal year.

The second aids people receiving income assistance who are eligible for spousal or child maintenance to obtain or vary maintenance orders. Less than $1 million was spent for legal fees under this program during the 1990/91 fiscal year. The ministry also registers claims with the Family Maintenance Enforcement Program administered by the Ministry of Attorney General.

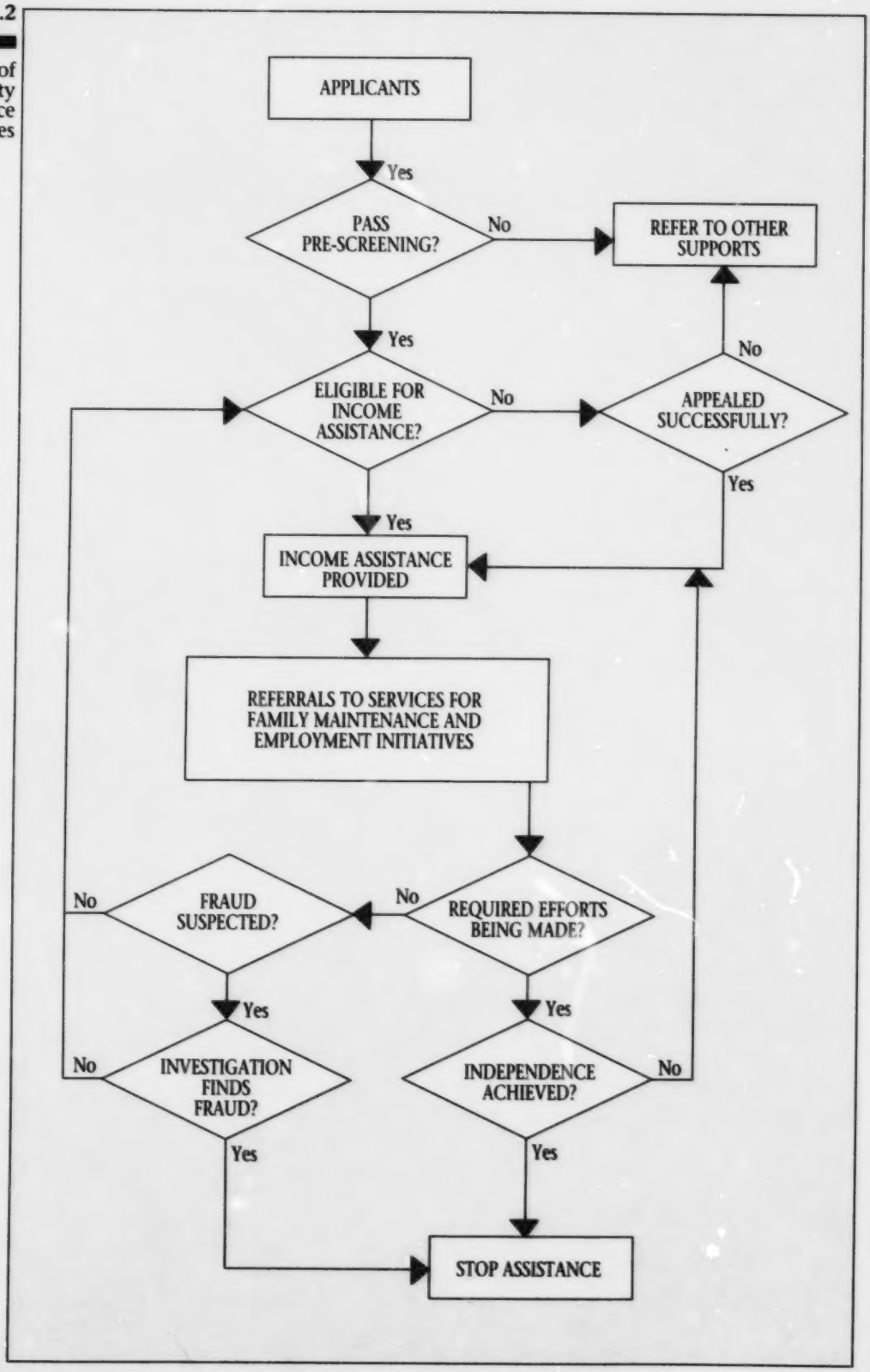
## Minimizing Incorrect Payments

To help minimize incorrect payments of income assistance, the ministry has designed procedures which are to be applied at the time of an individual's initial application for income assistance and those which are to be applied afterward. These procedures appear to be reasonable. However, the ministry does not have a reliable estimate of the total amount of incorrect payments made to show how well the procedures actually work. It is therefore difficult for the ministry to decide whether it is cost-effective to increase or decrease the application of its procedures.

The Income Assistance Program pays out money to numerous individuals each year based on information from documents they provide and on responses they give to questions asked. Staff need to make many decisions each day about whether to accept or deny requests for income assistance. There is, undoubtedly, a risk that some individuals or organized groups will be tempted to abuse such a large financial assistance system that relies, in part, on the honesty of the individual.

**FIGURE 1.2**

Overview of PFI Eligibility & Service Processes



Consequently, procedures are needed that help to prevent or detect abuse and error. At the same time, however, most of the individuals served by the program are considered to have a genuine and immediate need for assistance. As a result, the ministry needs to balance the need for control with the need for compassion when deciding who to pay and what amounts to pay them.

Achieving an appropriate balance between these conflicting needs poses a significant challenge to the ministry. Suitable procedures have to be designed so that incorrect payments are minimized in a manner that is cost-effective, without causing undue suffering to those individuals having a valid need for income assistance. To help assess whether the procedures are appropriate, the ministry should regularly measure the extent to which incorrect payments are being made. The ministry also needs to ensure that its procedures are understood by staff and consistently applied by them.

## Designing Suitable Procedures

The ministry has designed procedures for assessing initial eligibility according to clear guidelines which allow for timely issuance of a first payment. The assessment is then supplemented by follow-up procedures to verify representations made and to assess continuing eligibility. This combination of initial and subsequent checking appears to provide the ministry with reasonable ways of minimizing incorrect payments, which balance the need for control with the need for compassion.

People applying for income assistance are required to produce documents to support their identity and eligibility. The ministry has to make reasonable efforts to ensure that the representations and supporting documentation are valid so that it can determine with some accuracy whether a person is eligible for assistance and, if so, the level of benefits to be paid.

*Courtesy of the Ministry of Social Services*

A computerized payment system assists staff in verifying this information through automated edit and validity checks designed to reduce the chance of errors due to staff input or applicant misrepresentation. In addition, the information provided is sometimes verified with third parties. However, since the ministry must be responsive in providing assistance when it is needed, it cannot always perform elaborate checks before assistance is given. Verifying some of the information, such as the amount of cash held by the individual, is also difficult, if not impossible. It is inevitable, therefore, that some people will be paid in error.

To help identify errors in the assessment of eligibility and in the amounts being paid, various checks are also performed after the initial payment has been made. Random visits to the homes of individuals receiving income assistance are made to verify the accuracy of the information they have provided. From time to time recipients are interviewed by financial workers who review initial circumstances, look for changes, and question their efforts to become self-supporting. As well, recipients must submit monthly written declarations of the continuing need for benefits and a new application for benefits is to be completed annually for all recipients. Reports of suspected fraud received from the public and ministry staff are referred to Ministry Investigators for follow-up.

## Assessing Appropriateness of Procedures

Regular estimates of the total amount of money paid in error are needed to enable the ministry to gauge the relative success over time of its procedures for minimizing incorrect payments. The ministry does not, however, have a reliable estimate of the value of incorrect payments being made, so it cannot show with any certainty how well its procedures work. This also makes it difficult for the ministry to assess the cost-effectiveness of increasing or decreasing the application of procedures designed to reduce errors.

As described earlier, the ministry performs various checks to detect incorrect payments of income assistance benefits. As well, it monitors monthly regional caseload activity reports, looks into significant fluctuations in caseloads which cannot be explained by changes in the economy, and reviews reports prepared by its Audit Services Branch to identify cases of incorrect payments.

These procedures were not designed, however, to measure the amount or frequency of incorrect payments made. Fraud investigations, for example, are targeted to suspicious cases and do not represent typical circumstances. As a result, calculations based on errors identified by Ministry Investigators would not lead to a sound estimate of total errors made in the whole system.

Furthermore, none of the above procedures attempts to document the underlying causes of the incorrect payments. Without reliable information about the extent and causes of errors, we believe the ministry lacks a firm basis on which to assess the appropriateness of its procedures or to allocate its resources. It also lacks sufficient information about its performance to report to the Legislative Assembly.

The ministry has, in the past, carried out formal assessments of whether its procedures for minimizing incorrect payments are appropriate. For example, in October 1987, the GAIN Action Team was formed to review these procedures. It comprised representatives from industry, the then Ministry of Social Services and Housing, and the Ministry of Finance and Corporate Relations.

At the time of their review, a weak economy was contributing to a significant increase in the number of people needing income assistance. To cope with the increasing caseloads, financial workers had stopped performing a number of eligibility checks and had reduced their follow-up on employable recipients. The team also

found that supervision of financial workers had declined.

The Action Team made several recommendations it believed would reduce the likelihood of incorrect payments: that the delivery system be reorganized with the creation of offices specializing in income assistance; that supervisors of income assistance be appointed; and that additional financial workers be hired to bring their numbers into line with the identified optimum caseload per worker. The ministry has adopted each of these recommendations.

The team also recommended that increased efforts be made to confirm eligibility following recipient acceptance into the income assistance system. Team members concluded that visits by financial workers to the homes of recipients were useful in checking eligibility. They went on to recommend that home visits be re-introduced and that a visit to every individual receiving income assistance occur before the second income assistance payment was provided.

The ministry did re-introduce home visits, but not for all recipients; it decided that each month only a sample should be visited. We believe this decision was not based on an adequate analysis of how often home visits lead to the identification of errors in payments. Instead, it was based on the time staff have available after performing their other duties. As a result, although the ministry's home visits are identifying some errors, the ministry does not know how cost-effective its efforts are and whether it should be conducting more or fewer home visits.

Other types of subsequent eligibility checks are performed by Ministry Investigators. Thirty-five investigators handle approximately 10,000 cases each year. Ministry information shows that recoveries of overpayments identified by the Investigators Program more than cover the program's costs.

There is, however, one area of the Investigators Program which we believe requires further analysis. Some other organizations, such as the Workers' Compensation Board of British Columbia, use surveillance to investigate fraud. At present, the ministry does not routinely use surveillance even though it may be an efficient way to determine whether a person receiving income assistance is committing fraud,such as not reporting employment earnings. The reason is that it is concerned that recipients will feel harassed.

In deciding not to use surveillance routinely for fraud investigations, the ministry did not estimate the associated financial costs. We believe that such an analysis is necessary to ensure that the financial as well as the social implications of this decision are considered.

## Ensuring Procedures Are Understood and Applied

To help ensure that incorrect payments of income assistance are minimized, it is important for the ministry to ensure that its procedures are understood by staff and consistently applied by them. Overall, we found that the ministry has provided its staff with clear guidance for deciding who to pay and how much to pay them. However, specific directions for checking to see that recipients are making efforts to regain their independence and that staff are complying with these directions are not always clear.

### *Staff Orientation to Procedures*

Ministry staff see their primary role as assessing applicant eligibility for income assistance benefits. Ministry orientation and training efforts reflect this focus. The ministry has two primary ways to help ensure that its procedures are understood by staff.

First, written procedures have been combined into manuals which are used by staff responsible for delivering income assistance. We found that, in general, the manuals offered clear, up-to-date guidance for assessing applicant

eligibility. Ministry staff themselves reported that the manuals are a good guide for making assessments.

Second, formal training is used to help improve staff understanding of ministry procedures. Basic training for financial workers specifies procedures to follow to assess applicant eligibility for income assistance according to regulations. An orientation period ensures that assessments made by newly hired financial workers are reviewed by both a senior worker and a supervisor.

Similarly, new Ministry Investigators spend an orientation period with a senior Investigator and have their work reviewed by the senior Investigator and an Area Manager. We found that this training provides financial workers and investigators with a good basis for performing their work.

Checking recipient eligibility after the first payment has been made is also recognized as an important role of ministry staff, albeit a secondary one. The use of discretion is important when staff are deciding which individuals should be closely monitored. General guidelines are provided to help staff determine whether people receiving income assistance are making reasonable efforts to regain independence and are, therefore, still eligible for assistance. However, the guidelines are not specific enough to provide sufficient direction to staff for terminating assistance.

Given the numerous demands on both financial workers and investigators, we think that more specific guidance and formal training in this area would help to ensure that subsequent eligibility checking is dealt with in a timely, efficient way.

### *Staff Supervision*

To ensure that procedures are consistently applied, the ministry requires its District Supervisors and Area Managers to review staff work. Unfortunately, because direction for doing the reviews is not specific, they are done inconsistently. Furthermore, results of reviews are not documented in a way that can be used by senior management to assess the extent to which staff follow procedures.

The need for better supervision of financial workers was identified by the GAIN Action Team. It recommended that District Supervisors with experience in income assistance be appointed. The ministry has done this. Some common approaches used to assess staff compliance with procedures include group discussions of actions taken on specific cases, reviews of caseload reports, and reviews of recipient files before the approval of certain grants.

However, supervisors and managers are not provided with adequate guidance about the extent or depth of reviews needed to test actual staff compliance with ministry expectations. As a result, there is considerable variation in the frequency of the reviews and in what they look for.

Furthermore, because there is no requirement to document review findings, results are inconsistently recorded and reported to senior management. This means that the ministry does not obtain timely information about the extent of staff compliance with procedures.

The need to improve the level of staff supervision is confirmed by the work of the ministry's Audit Services Branch. Audits of field offices are conducted on a three- to five-year cycle, at which time a sample of recipient files is reviewed and results reported. The focus of the audits is to determine whether procedures are correctly and uniformly administered throughout the ministry. They are not intended to be relied upon as a day-to-day monitoring function and they are not performed frequently enough to serve this purpose.

In some instances, the Audit Services Branch has detected overpayments as a result of calculation errors and non-compliance with procedures. In our opinion, more consistent supervision of

financial workers could help improve these results.

We believe that if the results of supervisor and manager reviews were properly documented and reported, senior ministry staff could use the information to assess the appropriateness of the procedures, to identify individual training needs, and to evaluate the suitability of ministry training courses. Most importantly, this information would indicate to senior management, on a timely basis, whether staff were complying with procedures aimed at minimizing incorrect payments.

## Reducing Recipient Dependence

The ministry has reasonable procedures to help individuals obtain employment and maintenance payments and to reduce dependence on income assistance. These procedures have led to reduced dependence in some cases. The ministry has also performed research studies and developed some performance indicators to evaluate how well individual procedures are working. However, this information is not yet refined enough for the ministry to assess the efficiency of individual initiatives or the cost-effectiveness of increasing efforts to reduce dependence.

To help ensure that individuals are assisted in reducing their dependence on income assistance in a manner that is cost-effective, the ministry first has to design suitable procedures. It then has to assess the appropriateness of these procedures by regularly measuring the extent to which reductions in dependence have resulted. The ministry also needs to ensure that its procedures are understood by staff and consistently applied by them.

### Designing Suitable Procedures

The ministry's procedures for helping individuals obtain employment and maintenance payments provide it with reasonable means to reduce the dependence of those receiving income assistance.

#### *Employment Initiatives Program*

Approximately 75,000 of the 100,000 people receiving temporary assistance have been deemed "employable." The ministry defines an employable individual as anyone who does not have a child under a specified age or a medical certificate which states that they cannot work for a specified period of time.

The objective of the ministry's Employment Initiatives Program is to help employable individuals receiving income assistance improve their chances of obtaining employment. The programs combine wage subsidies, funding for education and retraining, and employment incentives.

Financial workers decide which employable individuals need help in finding work, based on discussions held during initial assessments of eligibility for income assistance. Employable individuals who have clear job prospects are to be monitored by the financial workers to see that those opportunities are pursued. Financial workers are also expected to look for ways to help those who require assistance to reach a stage where they can benefit from participation in an employment initiative. Those who are unwilling to participate are required to seek employment. Financial workers are to monitor these individuals by periodically meeting with them and checking to ensure that they are making regular contacts with employers.

Those individuals who do not have clear prospects for future employment and who are interested in training or employment initiatives are referred to

### LIFE PLANS

In June 1991, the ministry introduced its Local Initiatives for Employables (LIFE) programs designed to help Programs for Independence recipients regain their independence, or help new applicants remain independent. New staff were added to aid ministry clients with their independence. The additional procedures required under LIFE were not yet being consistently applied when we completed field work for this report.

The programs have two main parts:

Plan #1 - **Diversion** is composed of initiatives and programs designed for new employable singles and couples who are applying for assistance or who have not been on assistance for the previous two years. The objective is to focus more attention on diverting these applicants to other income supports such as federal government programs or seasonal employment.

Plan #2 - **Alternatives** are composed of initiatives and programs for employable singles and couples who have been on income assistance for less than one year. The objective is to provide these recipients with additional encouragement and opportunities to help them reduce their dependence on Programs for Independence.

Rehabilitation Officers who specialize in job counseling.

All employable individuals are encouraged to participate in setting employment goals which may or may not include classroom or on-the-job training. If classroom training is considered necessary, Rehabilitation Officers find out whether courses are available through federal or local programs, assist with enrollment, and monitor recipient progress to see if agreed goals are achieved.

On-the-job training takes place through wage subsidy arrangements. The ministry pays a percentage of the trainee's salary for a specified number of months instead of paying income assistance benefits. Individuals who are receiving income assistance are encouraged to find employers who are willing to train them in such an arrangement. Ministry advertisements also result in employers offering to train suitable candidates. Rehabilitation Officers are responsible for monitoring efforts of both the trainee and the employer during the contracted period and for assessing the trainee's job prospects on completion. The program is designed to give recipients increased work experience and, in some cases, they are retained by the employers at the end of the contract.

The ministry has recently introduced computerized procedures to assist in managing the status of individuals in the Employment Initiatives Program. The intention is to streamline procedures and thereby enable staff to be more efficient at monitoring recipient progress. The Assessment and Referral database, has been designed to include information about the employment skills, training needs, and program history of financial assistance recipients. The primary purpose of the database is to help staff identify individuals who would be likely candidates for available employment or training programs.

We found that the database is being used inconsistently by field staff. In some instances, recipient information was not being input regularly, or at all. This is partly because some staff do not think they need computer assistance when it comes to matching individuals with employment or training programs. Another reason is that the coding used to record each individual's skills is too

*Courtesy of the Ministry of Social Services*

general. For example, one general code includes several specific skills categories. As a result, further analysis is needed by staff when they use the system to identify specific skills of individual recipients. In addition, accessing the main computer system to record GAIN information for review by the financial worker requires long waits when switching from one system to the other.

These problems make the Assessment and Referral system difficult and inefficient to use. As a result, some staff are continuing to do their jobs without it. This leaves some doubt about the usefulness of the system to field staff and, because the system is incomplete, it contributes to difficulties in analyzing the potential benefits of enrolling more recipients in employment and training programs or providing more training for those who are enrolled.

### *Family Maintenance Program*

About 40,000 of the 100,000 people receiving temporary assistance are single parents. About two-thirds of these have been assessed by the ministry as qualifying for maintenance support from other individuals for themselves or for dependent children. In addition, there are people receiving income assistance who qualify for support from others for other reasons, for example because they are underage. If this support can in fact be obtained, it has the effect of reducing the need for the ministry to provide income assistance. To help achieve this reduction of assistance, the ministry's Family Maintenance Program provides eligible individuals with services that are designed to increase their likelihood of securing maintenance payments.

When a financial worker assesses an individual's eligibility for income assistance, the eligibility for maintenance payments is also assessed. Financial workers make this assessment by following guidelines which help determine the individual's potential for obtaining maintenance payments. Individuals who meet the guidelines are

referred to the Family Maintenance Program.

The Family Maintenance Program has only recently been established as a permanent ministry program. Until September 1991, the caseloads of Family Maintenance Workers were large and referrals were not always timely. Therefore, 50% more staff were hired to help reduce the backlog of referrals. To justify the increase in staff numbers, the ministry performed a cost-benefit analysis which showed that increased costs would be more than offset by resulting reductions in income assistance payments.

Family Maintenance Workers interview candidates for details such as the whereabouts of former spouses and decide whether to proceed with legal action. As part of this process, staff arrange meetings with those individuals from whom support is to be requested. Sometimes reconciliations are achieved and the individual then becomes totally independent of income assistance. In other cases, maintenance orders are obtained through the court system.

In situations where default is considered likely, the orders are also filed for collection with the Attorney General's Family Maintenance Enforcement Program. In this way, payments of income assistance by government are reduced and the individual receiving income assistance has an independent source of income that will continue even after he or she has left the income assistance system.

Conversion to a new system, designed to assist staff in managing the status of individuals in the Family Maintenance Program, was still underway at the end of our audit. As a result, we cannot comment on its usefulness.

## Assessing Appropriateness of Procedures

To assess the extent to which its efforts contribute to reduced dependence, the ministry has performed research studies and developed some performance indicators. The indicators are not yet refined enough, however, to be used to evaluate how well individual procedures are working to reduce recipient dependence. The limited information about program results also makes it difficult for the ministry to assess whether it would be cost-effective to increase its efforts to reduce dependence.

Determining how procedures used in the Employment Initiatives Program and the Family Maintenance Program affect recipient dependence is a complex task. In the 1990/91 fiscal year, the number of people receiving temporary assistance increased by about 15%. In each of the three years before, caseloads declined by an average of about 5%.

One key factor in these changes is no doubt the state of the economy. When there are fewer jobs available, the ministry's income assistance caseload increases. Improvements in the economy usually lead to decreases in caseloads. For the increase in the 1990/91 fiscal year, a significant contributor was the tightening of federal government policy on Unemployment Insurance payments. The ministry has also found that marriage is a common reason for recipients to become independent of financial assistance. Since recipients cannot be required to disclose what brought about their independence, however, any direct information the ministry receives is generally incomplete.

Notwithstanding the difficulty of determining how well its procedures are working to reduce recipient dependence, the ministry must still try to estimate the impact of its procedures. Only in this way can it assess the cost-effectiveness of designing new approaches to program delivery, and make appropriate decisions about allocating resources.

The ministry has performed research studies to measure the impact of its programs on recipient independence.

*Courtesy of the Ministry of Social Services*

This work is done by the Research and Evaluation Branch, which develops statistical information for monitoring and evaluating ministry programs and analyzes policy and program proposals.

Recently, the Research and Evaluation Branch undertook a study of the extent to which classroom training and on-the-job training strategies were helping recipients to become independent of income assistance. The findings showed that on-the-job training strategies were more cost-effective than classroom training. Also, employer contributions to salaries in on-the-job training programs were found to provide the ministry with enough income assistance savings to more than cover the cost of providing the programs.

The ministry consequently decided to increase its efforts in on-the-job training. This is a good example of the need for, and the benefit of, assessing the extent to which a particular approach is achieving its desired result.

We understand that the ministry is conducting additional research to determine which on-the-job training strategies provide the greatest net benefits. This will help the ministry determine the best way to allocate funds between programs so as to maximize benefits achieved.

Studies are also needed to determine the number of months of training to allow and the maximum wage levels to subsidize. For example, consideration could be given to increasing the maximum subsidy per hour to include jobs with higher salaries, perhaps for a shorter period of time. Then recipients might be able to receive training for jobs that are more likely to encourage long-term independence from income assistance.

However, while research studies can be very useful in helping the ministry assess the extent to which its objectives are achieved, they may require several years of tracking and analysis to complete. As a result, the ministry also

needs to develop more timely indicators of performance.

To address this need, the ministry is collecting information monthly about activities in its independence programs. Statistics are prepared on the number of recipients participating in each of the programs, the financial resources used, and the changes in the total caseload numbers. However, these indicators do not directly measure whether programs are successful.

We believe it would be more useful to focus on increases and decreases in the income assistance paid to those who have participated in programs for reduced dependence. In addition, analysis of reasons given for reductions, although not available for every participant, would assist ministry management in measuring program results more effectively than would examination of increases and decreases in total caseloads.

Approximately 15,000 of the 75,000 employable recipients are enrolled in the Employment Initiatives Program at any point in time. About 25,000 of the 40,000 single parents receiving income assistance are enrolled in the Family Maintenance Program. If the ministry had more readily available information about program results, it would be in a better position to assess whether it is cost-effective to increase its efforts in these areas.

Information about the number of individuals who are helped as a result of participation in programs for reducing dependence would also enable the ministry to provide more meaningful information about performance and unmet needs to the Legislative Assembly and the public.

## Ensuring Procedures Are Understood and Applied

To help it meet its objectives, the ministry must ensure that procedures for reducing dependence are understood by staff and are consistently applied. We found that, although ministry staff clearly understand most of the procedures, the ministry needs to improve staff training, especially for District Supervisors, if it is to ensure consistent application of these procedures.

The ministry communicates its expectations to staff formally and informally. Staff of both the Employment Initiatives Program and the Family Maintenance Program have recently received revised manuals. We found that, in general, the manuals provide formal guidance that is useful and up-to-date. In addition, informal staff meetings and general case discussions occur regularly.

Rehabilitation Officers and Family Maintenance Workers have orientation periods similar to those for Financial Assistance Workers. At the end of our audit, however, some District Supervisors had not had formal training to help them understand the procedures used by staff in the programs for reducing dependence. As a result, interaction between supervisors and staff in these two programs has varied considerably.

Furthermore, supervisors had not been trained in how to review staff decisions or to document the results of reviews for scrutiny by higher levels of management. The ministry has therefore obtained little formal information from these reviews about the consistency with which procedures are applied. However, additional training to improve supervisor reviews and documentation was, at the end of our audit, about to begin, and was planned to be completed early in 1992.

## Public Accountability

The objectives for Programs for Independence are clearly stated in the information provided by the ministry to the Legislative Assembly and the public. We do not believe, however, that there is sufficient information to allow readers

to determine how successful the ministry has been at meeting its objectives.

In its annual and quarterly reports, brochures, and business plans, the ministry reports extensively about services provided, who is helped, the number of program participants, and the amount of money spent. However, it does not make clear to what extent the ministry's Income Assistance Program ensures that incorrect payments of income assistance are minimized or to what extent the Employment Initiatives Program or the Family Maintenance Program aid recipients in reducing their dependence. In part, this reflects the fact that the ministry does not readily have this information.

## Looking Ahead

Since the GAIN Action Team reported in 1988, the ministry has implemented many of the recommendations made. Ministry surveys show that the resulting reorganization of field offices has led to improvements in interactions between staff and recipients of income assistance, as well as to more frequent staff interaction with supervisors. There has also been a focus on developing new procedures manuals and training programs for staff, and on developing performance indicators to evaluate results of programs.

We encourage the ministry to continue its initiatives to improve staff orientation to programs and to develop better means of assessing the effectiveness of its programs. To ensure that value for money is achieved, however, we think it must also take some other steps. It should make greater use of formal cost-benefit analyses of program options in areas such as deciding the extent and timing for subsequent eligibility checks, and deciding which employment programs to provide and the optimum number of participants. It should also refine its performance indicators so that it can directly measure the impact of its procedures on minimizing incorrect payments and reducing recipient dependence on income assistance. Finally, supervisor training should be increased to ensure that staff decisions are monitored and that the results of reviews are documented.

## MINISTRY OF SOCIAL SERVICES

# RESIDENTIAL SERVICES

*An assessment of how the ministry manages contract residential services for children in care and the mentally handicapped*

## AUDIT PURPOSE AND SCOPE

Residential care is only one of the services the ministry provides to children in its care and to the mentally handicapped. However, it is the most expensive service (Figure 1.3), and the one in which the ministry has the greatest responsibility for its clients. Residential care consists of more than just room and board; it also includes a home-like atmosphere and positive model of social behavior, and may also include therapeutic services.

We conducted this audit to determine if the ministry takes adequate steps to ensure that the residential services it provides are cost-effective and meet the needs of its clients. We did not examine the effectiveness of particular individual placements into residences.

We examined the residential care programs having the most clients and largest expenditures: those for children in care and persons with mental handicaps. We did not examine institutional care, at-home services, supported independent living, emergency shelters, or transition houses.

We carried out the audit between June and October 1991. Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

## OVERALL CONCLUSION

We found that the ministry is appropriately organized, and has appropriate processes in place, to determine and respond to the differing needs of its clients within their own communities.

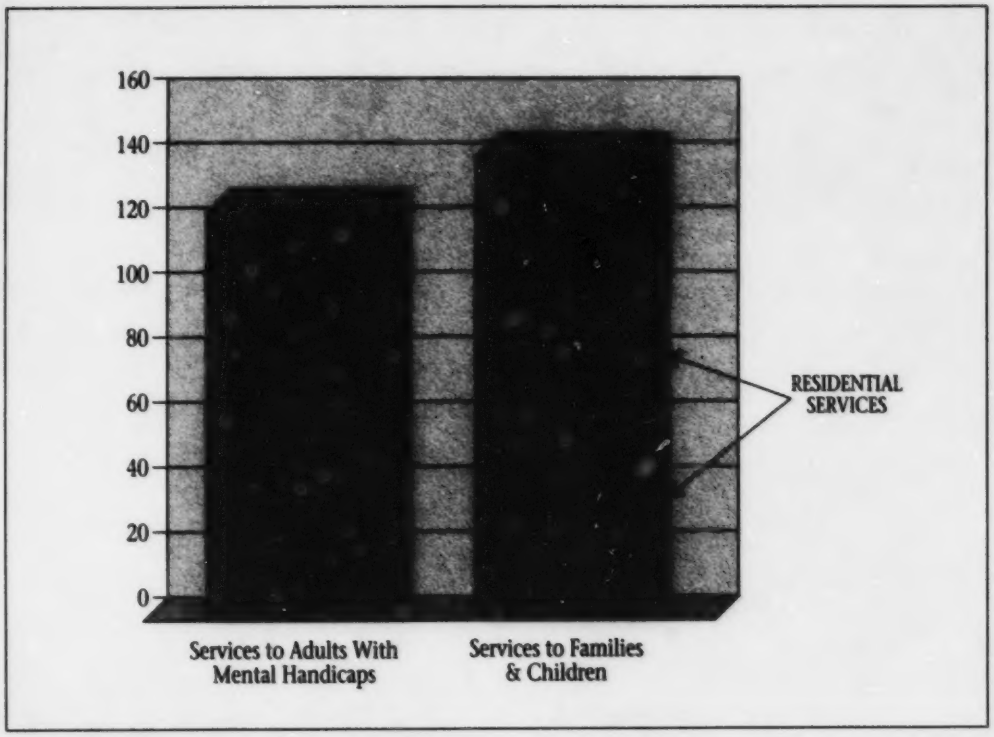
However, the ministry does not have adequate processes to ensure that its residential services are appropriate and cost-effective. To improve its processes, the ministry needs to define its service delivery expectations more clearly. It then needs to better communicate those expectations to its service suppliers, and to link those expectations to an effective monitoring process. It should also better relate its funding of service suppliers to the services they deliver, and assess the cost-effectiveness of its various residential service options.

The ministry also needs to do more to inform the legislature and the public about how it is meeting its clients' needs for residential services.

**FIGURE 1.3**

Residential Services Expenditures for the Year Ended March 31, 1990 ($ in millions)

*Source: Ministry of Social Services*




## Residential Services in Context

Society's expectations regarding services to children and the mentally handicapped change over time. To adequately serve its clients, the ministry must be responsive to these changes. It must also balance calls for more and better services against the need to see that services provided through taxpayer dollars are cost-effective.

By policy, the ministry does not operate any residences itself, but instead purchases residential services through contractual agreements with individuals, companies, and non-profit agencies. Residential services are purchased in a marketplace that is unusual in three ways.

First, the ministry and its suppliers have more mutual dependency than is usual in the purchase of most other goods or services. In many communities there are only a few suppliers, so the ministry has little choice as to who to buy from. This is especially true for services to the mentally handicapped, where just 18 suppliers, each receiving more than a million dollars a year, account for 47% of provincial spending on residences. Most of the ministry's suppliers are similarly restricted in their market choices, receiving almost all their income from the ministry.

Second, the ministry's duty of care to its clients forces it to be more intimately involved in how its suppliers deliver services than is usual in contract relationships. The quality of residential services depends partly on the atmosphere in which they are delivered, and, also, on the attitude care workers show to their clients. To a large extent the care workers *are* the service, so in specifying what services it wants, the ministry has to become involved in how

and by whom these services will be delivered.

Finally, continuity is particularly important in residential services. Mentally handicapped clients, like children in care, may be distressed by frequent changes in residence. As a result, the ministry cannot lightly replace an unsatisfactory residence and contract with a new one.

## Residential Services for Children in Care

Children enter care either because the ministry has apprehended them for their own protection, or by agreement with their parents. Usually they enter care without much advance warning.

The ministry has a statutory obligation to investigate reports of suspected child abuse or neglect. The ministry carried out 33,000 such investigations in the 1989/90 fiscal year, resulting in 6,160 children being taken into care.

Over the last decade the number of children in care in the province has been declining. Most return home within six months. Some, however, stay much longer.

"Child", in law, means younger than age 19; over half of the children in care are actually teenagers, whose needs are often quite different from those of young children in care.

Four-fifths of children in care are living in the residences discussed in this report, which provide specialized substitute parenting when parents are unable to care for their child (Table 1.2). There are two types of residence: family-style and staffed. In family-style residences, such as foster homes, children live in the care provider's own home. Staffed residences, such as group homes, also care for children in a home-like atmosphere. However, their staff do not live in them fulltime.

## Residential Services for the Mentally Handicapped

Clients of the mentally handicapped program voluntarily come to the ministry for services. They are adults and usually become clients in a planned, predictable way. Increasingly, potential residents are known to the ministry through educational and day programs, and their residential needs can be planned for. Also, many clients placed in residences recently have come from institutions. A decade ago the government announced a program to move mentally handicapped residents of institutions back into the community. This program has proceeded in planned

| | Number of Children | Number of Residences | Cost ($ millions) |
|---|---|---|---|
| Foster Homes | 2,627 | 2,488 | 27.3 |
| Other Ministry Residences | 2,004 | 979 | 83.4 |
| | 4,631 | 3,467 | 110.7 |
| Not in Ministry Residences | 1,344 | n/a | n/a |
| | 5,975 | | |

Cost are budgetted expenditures in the fiscal year ending March 31, 1992; counts are as at December 31, 1991.

**TABLE 1.2**

Residential Services for Children in Care

*Source: Ministry of Social Services*

stages. In the 1989/90 fiscal year, for example, 142 institutional residents were placed in new community homes. In the 1990/91 fiscal year a further 78 residents followed.

The residential care program (Table 1.3) "provides adults with mental handicaps with places to live in their own communities, and fosters as much independence as possible while ensuring the individuals' needs are being met....[C]ontractors are responsible for ensuring the basic needs of food, shelter and clothing are met; personal care, supervision, recreation and transportation are available; assessments are carried out; skills training and behavior management are provided; and residents have access to the community" (*Annual Report, 1989/90,* Ministry of Social Services and Housing).

## Community Level Service Delivery

To help its clients maintain contact with their families, the ministry aims to serve clients within their own communities. We found that the ministry is appropriately organized, and has appropriate processes in place, to determine and respond to the differing needs of its clients within their own communities.

The ministry's stated goal is to keep children within their home communities whenever possible, so that they maintain links to their family and culture. It is similarly committed to normalization of services to mentally handicapped adults, including delivering community-based services to new clients and returning to the community those clients formerly in institutions.

Given these commitments, the ministry needs to be able to understand and deal with the differing local needs of its clients. It also needs to operate within differing local supplier markets. In large cities, for example, trained staff may be more easily found for group homes than in smaller centres, where foster parents may be easier to recruit.

### Organization for Local Service Delivery

A major reorganization of the ministry in the 1988/89 fiscal year, and subsequent financial and staff allocations, have allowed each district to better focus on local needs and resources and to respond to changing expectations for non-institutional, locally delivered

**TABLE 1.3**

Residential Services for Adults with Mental Handicaps

*Source: Ministry of Social Services*

| | Number of Adults | Number of Residences | Cost ($ millions) |
|---|---|---|---|
| **Community Residences** | | | |
| For Profit | | | |
| Family-Style | 1,347 | | |
| Staffed | 319 | | |
| Total | 1,666 | | 37.7 |
| Non-Profit | 1,231 | | 36.9 |
| Total | 2,897 | 891 | 74.6 |
| **Other Residence Services** | 578 | 219+ | 13.0 |
| | 3,475 | n/a | 87.6 |

Cost are expenditures in the fiscal year ending March 31, 1991; counts are as at December 31, 1991.

services. Within each of the ministry's 10 regions, the budget and responsibility for purchasing residential services are delegated to local area managers (Figure 1.4).

Specialization is encouraged by separating services to children in care and services to the mentally handicapped. This specialization is useful because of the different needs of these clients, and especially because of the different service time frames. That is, children are usually in care for relatively short periods, while mentally handicapped clients may be with the ministry for their entire lives. Another different need is cultural: since about one third of children in care are of Native origin, the ministry is working with Native organizations, and developing its own specialized staff, to meet the needs of these children in culturally appropriate ways.

Most districts also have staff who specialize in working with residential resources, so they can develop a better understanding of the residences available and how these can best serve clients. There had been some residential specialists before reorganization, but mainly in larger urban centers.

## Knowing Local Needs

Each district, to the extent it can, develops a network of different types of residences to match the needs of its current clients and to have a reserve for new arrivals. Local ministry staff decide what changes need to be made in this network. To do this, they examine the needs of present clients, anticipate the needs of new clients, and compare both against the particulars of the residences available. Demographics can affect needs, such as when a growing teenage population increases demand for group

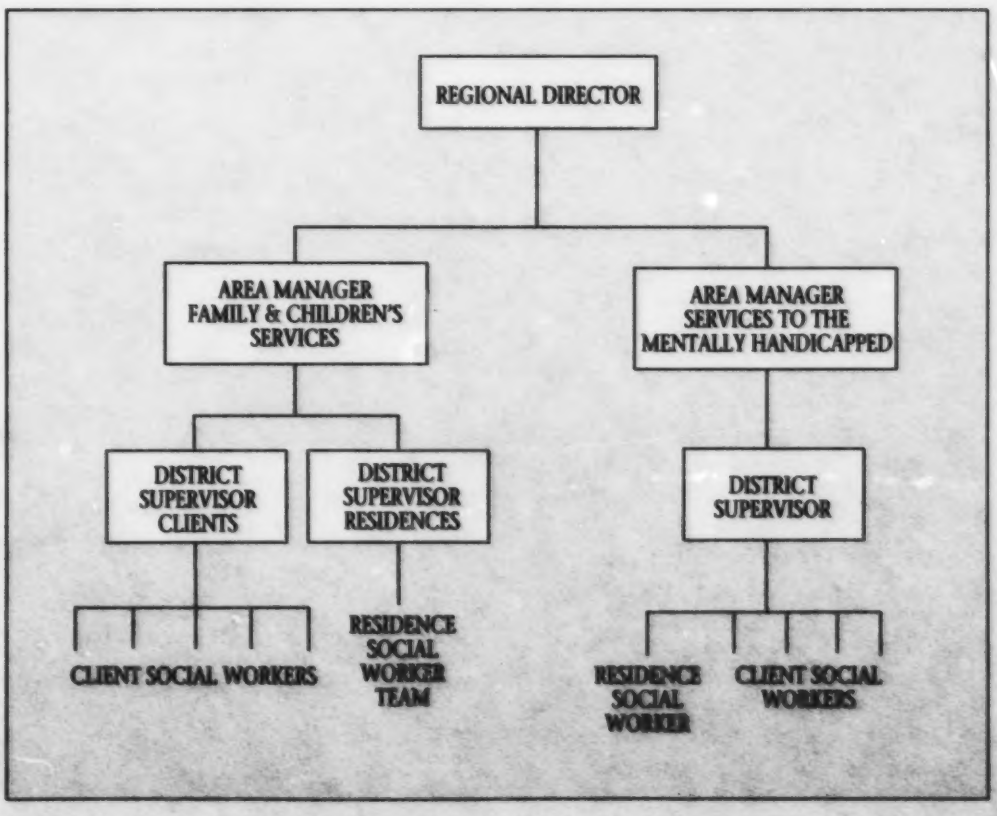



**FIGURE 1.4**

Partial Organization Chart: Typical Organization for Local Delivery of Residential Services

homes and semi-independent living. So can community expectations, such as when advocacy groups call for innovative residential models. To understand these trends in more detail, local managers consult with their frontline staff and with other stakeholders, such as advocacy groups, schools, and mental health program personnel. To aid this local process, the ministry summarizes general trends in service demand for each region and for the province.

## Service Delivery Expectations

Buying services from outsiders, rather than producing them using internal staff and resources, calls for clear communication between buyer and supplier. Particularly in buying services from a third party, the ministry should clearly specify what kind of services it wants. This it is not doing. Contracts generally lack specific and measurable performance requirements, and often do not differentiate the types of residential service being purchased. While residential care standards for mentally handicapped adults have recently been developed and included in contracts, standards for children in care are still being drawn up. Contract expectations should be related to clear ministry program objectives. For children in care, these objectives need to be clarified. The ministry has begun a review of its legislation as a first step towards doing so.

### Communicating Service Expectations to Suppliers

We found that most of the ministry's residential service contracts in force at the time of our audit were incomplete and unclear in laying out the ministry's expectations of suppliers. Service requirements were usually very general, processes for delivering the service were not commonly specified, and the results to be achieved were rarely stated. As a result, we believe it is difficult for the ministry to be sure that suppliers produce the services required.

The ministry is aware of these weaknesses, and has set up an internal working group to revise most aspects of its contracts, including those for residential services. The working group has drafted a new procedures manual, which calls for services to be clearly defined and for service standards to be incorporated into contracts. Staff training programs are being developed in all aspects of contracting, including monitoring to see that contract expectations have been met. We concluded that the ministry's approach to improving its contracting procedures is reasonable, but it is too early to judge how these new initiatives will affect service delivery in practice.

### Standards of Care

The ministry is responsible for seeing that each of its clients receives the same quality of service. Where similar services are being purchased from many suppliers, formal standards of care are necessary. Formalizing such standards is important in providing continuity when clients are with the ministry for a long time and being served by many different ministry employees and suppliers. The ministry is currently developing formal residential care standards. Standards were recently issued for mentally handicapped adults, and are now being drafted for children in care. We believe these standards will help the ministry in drafting clear contracts and in clarifying

and communicating expectations more generally.

### Linking Contract Expectations to Operational Goals

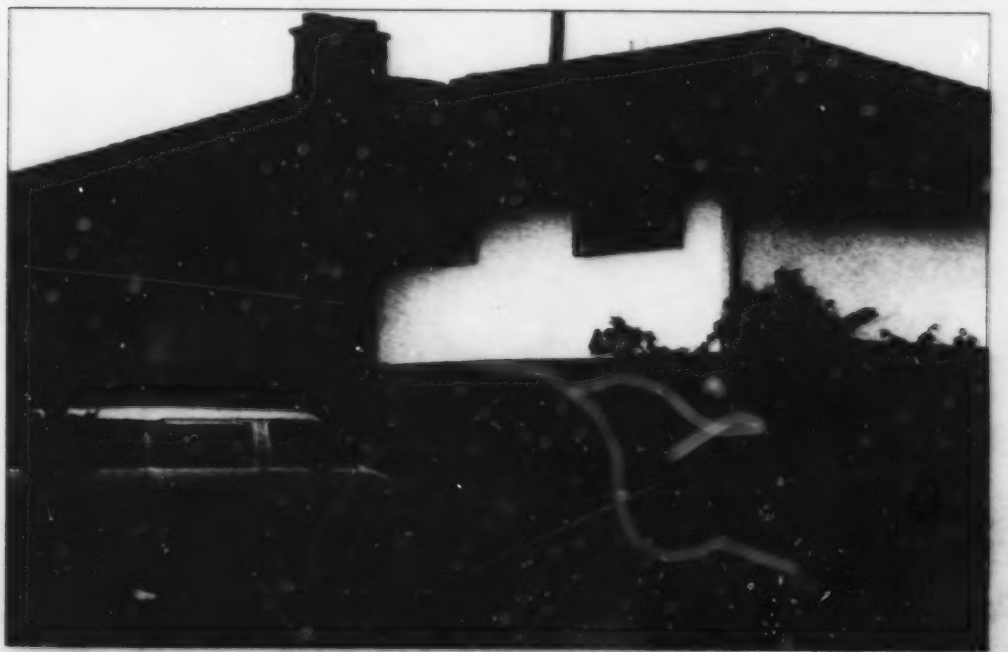
Contract expectations should link back to the ministry's operational goals, to ensure that services are carried out in a way that is consistent with policy and program objectives. In turn, these program objectives and priorities must be clear.

The ministry has clear goals and priorities for its adult mentally handicapped clients, revolving around the primary objectives of normalization and integration of clients into the community. For children the situation is more complex. The mandate for services to children comes from the *Family and Child Service Act*, which focuses on protecting children at risk. The Act does not address the situation of children for whom protection is not the main concern, such as children with mental handicaps or adolescents in conflict with their parents. Nor does the Act provide direction as to what the specific service goals should be for different kinds of children while they are in care.

The ministry believes that a review of the Act is needed as a starting point for clarifying its goals and priorities for residential and other services to children. Outside parties, such as the Ombudsman, agree. The minister recently announced that such a review will take place over the next two years.

## Choosing Service Providers

The ministry has a duty of care to its clients receiving residential services, all of whom are vulnerable and many of whom are unable to adequately speak for themselves. In the case of children, the ministry, represented by the



*Family-style residences blend into their neighbourhoods* *Courtesy of the Ministry of Social Services*

Superintendent of Family and Child Service, is often the legal guardian. Because of this duty of care, the ministry is concerned that it select only appropriate, qualified care providers. The processes that ministry staff use to select suitable foster homes are reasonable, but procedures for selecting other residences, and overseeing their suitability, are not.

## Market Constraints

Selection is difficult when there is a limited range of choice. This is a problem the ministry often faces. Especially for specialized services, local ministry staff commonly find they have few potential suppliers to choose from. In many towns, one or two organizations supply most of the residences for a program.

The ministry has tried to widen its choice of suppliers, especially foster parents. In recent years it has run a province-wide promotional campaign, and every year it carries out local foster parent recruiting campaigns. For other kinds of residences, the ministry tries to reach potential providers by publicly advertising for tenders. This is commonly done when specialized new residences are being planned, and it includes advertising throughout Canada when necessary. Unfortunately, the results of these efforts only emphasize the difficulty of the ministry's task. Foster parent campaigns find few new candidates, although they are useful for publicly thanking existing foster parents. Tender calls, especially for services in smaller communities, often attract only a handful of likely candidates.

In a normal market situation, a wide range of choice would encourage quality service delivery. However, the results of its efforts to expand its choice of suppliers show that the ministry cannot depend on market forces. This narrow market, along with the ministry's duty of care to its clients and the clients' need for continuity of care, means that the ministry must have reliable ways of seeing that service providers are suitable.

## Reviewing Suitability of Service Providers

The ministry has developed well-organized procedures for reviewing foster homes for suitability. Foster parents are visited and interviewed by social workers, who then prepare a foster home study. The process includes reference checks and criminal record checks. The ministry makes sure these foster home studies are carried out properly, through district audits done by its inspections and standards unit. Local staff follow up on the initial approval process by conducting annual standard reviews of foster homes.

The ministry does not have such an organized method of seeing that staff in contracted residences are suitable, even though they, like foster parents, are in direct contact with vulnerable clients. Instead, it relies, for the most part, on management of contracted residences to assure that residence staff are suitable for the job. The only specific instruction given on what to look for is a requirement for criminal record checks of all people in direct contact with children in care. The ministry does not systematically check to see how well contractors have carried out their delegated responsibility for screening their staff.

## Reviewing Suitability of Service Managers

We believe that delegating this responsibility to the management of contractors is reasonable, as long as the ministry first assures itself of the suitability of management. If the

ministry is satisfied that management is competent, it can rely to some extent on management making sure that direct care providers are competent.

As part of tendering for new services, the ministry examines the management capability of potential contractors: their experience, training, organizational plan, and other evidence of being able to operate a residence. With no ministry standard on how to carry out this review, considerable judgment is called for on the part of the reviewer. As a result, local offices have developed their own processes, which can lead to standards being applied inconsistently across the province. Recent contractor surveys have highlighted the need for clearly stated selection criteria and a consistent tendering process.

The ministry also receives some information on management through the licensing of certain residences. Staffed residences with three or more beds, except foster homes, are defined as community care facilities, and by law need an operating license from the Ministry of Health. Each residence is reviewed against Ministry of Health standards, which focus largely on health and safety, although the review also covers the training and personal qualifications of the on-site manager of the residence.

Once a contractual relationship has been established, re-tendering is not always an option because of the limited market, the suppliers' dependence on the ministry, and the clients' need for continuity. Yearly contract renewals, which occur for the bulk of contracts, are not often tendered and so do not undergo the same review as do new contracts. There is no standard method for reviewing the continuing adequacy of management performance before negotiating a contract renewal. Contract renewals are not always preceded by an evaluation of past performance; often negotiations for renewal focus on financial issues rather than on quality of service. This leads to inconsistencies. A more consistent linkage between formal performance evaluation and contract negotiation is needed, and has been called for by contractors themselves.

We believe that the ministry should apply the standard it has set for checking the suitability of foster parents to checking the suitability of all other people involved in delivering services to its clients. That is, uniform procedures must be followed for checking suitability and for regularly reviewing that checks have been done and suitability continues. These would include seeing that contractors check their own staff, and that the ministry reviews the performance of contractors as managers.

## Choosing a Basis of Funding

To ensure that it is getting value for money, the ministry needs to know what it is paying for, link what it pays to its service expectations, and use funding methods that encourage supplier efficiency. At present, the ministry lacks a consistent method for linking funding to either cost or level of service for negotiated-rate contracts, which make up the majority of its spending on residential services. It is, however, introducing a method of funding for family-type care of children that would reasonably link standard pay rates to both cost and level of service.

The ministry is the major government purchaser of residential services for children and for the mentally handicapped and, as such, dominates the supplier market. The amounts paid out are substantial. In the 1989/90 fiscal year the ministry paid $166 million for

residences for children and the mentally handicapped. Individual contracts can be large, too. For example, a four-bed group home can cost as much as a quarter of a million dollars a year, and the ministry has more than 20 suppliers who receive more than a million dollars a year for residential services.

Such ministry goals as continuity of care are inconsistent with a strictly market approach to dealing with suppliers. The ministry needs to look within each contractor's operation, to see how the services it is asking for link to the cost of supplying them. But there are two impediments. One is that service expectations are not clear, as discussed earlier. The other is that the ministry's knowledge of the cost elements of its suppliers is deficient.

## Negotiated-Rate Contracts

The ministry has two different ways of working out how much to pay for contracted residences. Although it funds some services at fixed rates, it individually negotiates the rates for the majority of services, especially staffed or specialized residences. We found that ministry staff negotiators are not well supported in terms of policy direction, skills training, specialized assistance, and information.

To begin with, staff entering a negotiation are not told on what basis to establish the funding. Each basis has different consequences. For example, basing payment on the previous year's contract, without further analysis, could either waste public funds or disrupt clients by driving service providers out of business. Alternatively, paying for actual costs incurred would keep suppliers in business, but give them no incentive to manage efficiently.

We found that ministry negotiators, lacking policy guidance, often distribute budget increases relatively evenly among all contractors, regardless of the relative quality of services provided. Negotiations that go beyond this level usually try to establish the contractor's actual costs and to pay on that basis. However, ministry negotiators are ill-prepared for analyzing a contractor's costs. They rarely have training or experience in analyzing financial information, and usually do not receive skilled assistance to supplement their own abilities. They are also hampered by lack of information on most contractors' costs, because the ministry has not detailed what financial information contractors should provide. Suppliers therefore report their costs in different ways, making comparisons between contractors supplying similar services difficult.

Recently the ministry has begun to compare average rates paid for different types of residence in different regions. These give negotiators some indication of whether contractors' rate proposals are out of line with those in other regions. However, there is no analysis of the underlying cost components of these rates. More detailed cost breakdowns are needed if the ministry is to properly understand what it is paying for.

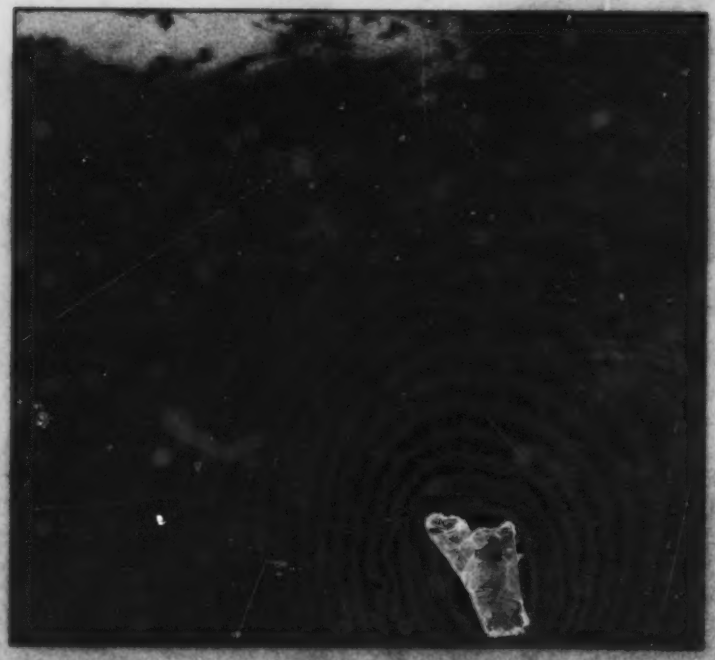
## Fixed-Rate Funding

Where fixed rates are used, the ministry has not yet fully developed a rationale for its rates based on services expected and received. Recently, however, it has started a review of the basis underlying both fixed and negotiated rates for residences for the mentally handicapped, especially where similar services are provided. Also, it is preparing to introduce a new fixed-rate system of funding family-style children's residences. This new system appears to better link funding rates to both the out-of-pocket costs of care providers and the

level and type of service expected from them.

### Staffing of Contracted Residences

Not only is there a limited number of suppliers from which the ministry can draw its contractors—the management side of supply—there is also a limited number of qualified staff for residences. Much of the quality and continuity of service provided by contractors to the ministry depends on the skills and dedication of their employees. As a result, the ministry has begun to examine what it can do to improve recruitment and retention of staff for residences. After studying care providers in residences for mentally handicapped adults, it recently targeted additional funding specifically to increasing wage levels. It is also examining whether better training opportunities would encourage more people to become care providers, for both adults and children.



*Special care homes offer children a family-like setting*
*Courtesy of the Ministry of Social Services*

We believe it is important for the ministry to continue these and similar useful initiatives.

## Monitoring Service Delivery

Under any contractual relationship, the ministry needs to ensure that it gets the service that it called for. Under its duty to care for its clients, ensuring the proper delivery of contracted residential services is particularly important. The ministry, however, has no consistent, ongoing process for monitoring and documenting the delivery of service relative to its contract expectations and standards.

Monitoring the services of suppliers is usually the responsibility of specialized social workers. While there is a general recognition within the ministry that monitoring should occur, there is little central direction on how it should be carried out. Current monitoring is often informal, and area managers and their staff are largely left to develop processes as they see fit.

Service suppliers, advocacy groups, and ministry staff agree that a clear and consistent approach to monitoring is needed. Suppliers have also expressed a need for formal feedback on their performance. Evaluation of performance relative to contract expectations is recognized as important by the ministry in its development of new

contract guidelines, being drafted at the time of our audit.

Each residential client of the ministry has an assigned case worker. These social workers focus on the needs of the client and on planning related to meeting these needs. As part of this focus, case workers are required to visit their clients regularly. In doing so, they come in contact with the care providers for their clients. Case worker assessments of service providers can be a valuable contribution to the monitoring process. However, the ministry has as yet given little direction on how this information should be gathered and incorporated into formal evaluations of supplier performance.

### Monitoring Residences for Mentally Handicapped Adults

The ministry has developed and published residential care standards for mentally handicapped adults. It is now developing policy and procedures for monitoring to ensure these standards are adhered to. As part of the downsizing of institutions for the mentally handicapped, the ministry has taken special steps to monitor new residences. A group of specialists, the Provincial Review Team, has been contracted to examine each new residence about six months after it opens. The focus of this examination is developmental—that is, providing constructive evaluation and recommendations to help care providers do a better job of meeting the ministry's expectations. A detailed evaluation process is followed, one which fits well with the newly issued standards of care. The ministry is reviewing the Provincial Review Team's process to see if it can be incorporated into a more general monitoring method for all residences.

### Monitoring Residences for Children in Care

Ministry policy requires a standard foster home review annually. However, there are no guidelines for formally evaluating the performance of other service providers. The ministry recognizes that a monitoring and performance evaluation process is needed and plans to develop one, linked in part to the standards for residential care currently being drafted.

### Developmental Monitoring

It is important that the ministry deal with its suppliers fairly and constructively. With a limited market, not doing so could make it more difficult to recruit and retain suppliers, and could burden residents with sudden or unplanned moves.

In coming to grips with its relationship with its service suppliers, the ministry faces a seeming conflict between developmental support to care providers and control-oriented monitoring. Clearly, the ministry has a duty of care to its clients and must ensure service is adequate. It also has to retain an adequate network of quality suppliers. A monitoring approach similar to that used by the Provincial Review Team appears to strike a balance between control and constructive development. We believe that elements of this approach can also be of value in developing a process for monitoring residences for children in care.

## Providing Effective Service Delivery Options

The ministry recently acknowledged, in its *1991/92 Business Plan*, the need to evaluate the effectiveness of its service delivery. It has already taken some preliminary steps to do so. However, at

the time of our audit it did not know whether the mix of service delivery options it had chosen was the most appropriate or cost-effective. Considering the significant number of dollars spent on delivering residential services, more needs to be done to ensure that these dollars are well spent.

## What Evaluation Entails

Managing social service delivery involves finding the right mix of different kinds of service delivery to meet client needs, while making the best use of limited resources. One key component of getting the right mix is knowing how well different kinds of service delivery actually produce the desired benefit for the client: in other words, how effective are they? The other key component is cost: how much did the ministry have to pay to get that amount of effective service?

The choice of how to meet a particular client need may not be confined to residential services. In some situations, non-residential services may be effective substitutes. For example, the ministry has non-residential programs which, through timely intervention and counselling, aim to keep children from coming into care and needing residential services.

Given the ministry's desire to serve its clients within their local communities, it is important that it identify more than one effective model of service for each client need. Otherwise, effective service delivery may be impossible in some communities. For example, a model of service that works well in an urban center but requires highly trained staff may not be feasible in a rural area where such staff are unavailable.

## Information for Evaluation

In the past, the ministry has only rarely carried out formal evaluations of the effectiveness of its services to children. However, it is currently developing the framework needed to make effectiveness evaluation a normal part of its activities. This includes developing consistent definitions for types of services and types of residences, and improving information systems.

We believe that improvements of this nature are essential. The ministry's present information system for children in care is an impediment to assessing its services to them. The ministry has only limited information on these children, in a form allowing easy study and comparison. For example, although some children are brought into the ministry's legal care repeatedly, the ministry's information system only reports on the child's current period in care.

Centralized information on mentally handicapped clients is also limited, but the ministry expects improvement from its current program for developing and recording personal service plans for each client. To date, while there have been some evaluations done on services to mentally handicapped adults, they have focused on qualitative results of downsizing institutions.

## Accountability

Residential services are a significant expenditure of government, and affect the lives of several thousand British Columbians. The ministry has a duty to the legislature and the public to report on its management of these services. Currently, it is not giving the legislature and the public all the information they need to assess its performance in supplying appropriate, cost-effective residential services.

### An Accountability Model

To get a full accounting on any government program, we believe that legislators and the public need to know whether:

- the program's objectives are clear, well integrated, and understood;
- the program continues to make sense given the problems to which it is intended to respond;
- the design of the program is logical in light of its objectives;
- intended results are being achieved;
- the program has secondary impacts—that is, other significant consequences, positive or negative;
- clients of the program find it satisfactory;
- its costs and productivity are appropriately accounted for;
- the organization is able to adapt to change;
- its employees have a good working environment;
- important assets, including experienced staff and good suppliers, are husbanded; and,
- key measures of performance are monitored.

### Ministry Accountability

For most ministries, the main avenues for accountability are their estimates and annual reports. Commendably, the Ministry of Social Services has gone beyond this, and also publishes annual plans and related documents describing its services to children in care and the mentally handicapped.

However, even taken together, all these reports are successful only in presenting the primary objectives of the programs. They do not explain clearly the nature of either the clients' needs or the services the ministry provides. Neither the costs of providing these services, nor the actual benefits resulting from them, are adequately presented. Cost information is fragmentary and confusing, and results are not discussed. Furthermore, client satisfaction, the working environment, important assets, and performance monitoring are not addressed.

## Looking Ahead

The ministry has several initiatives under way, and has discussed others in its current business plans, aimed at improving many of the areas we have commented on. Particularly important are the ministry's efforts to better rationalize the funding system (including identifying clearly what is being paid for) and to proceed as quickly as possible in evaluating the effectiveness of different service delivery alternatives. An important prerequisite of such evaluation is to improve the ministry's information systems on the clients of its residential services.

## MINISTRY OF SOCIAL SERVICES

# MANAGING PROFESSIONAL RESOURCES

*An assessment of the Ministry of Social Services' human resource management processes for its social workers*

## AUDIT PURPOSE AND SCOPE

The ministry relies on its human resource management processes to give it assurance that social services are provided by qualified staff, to an accepted standard of practice, economically and efficiently. We conducted this audit to assess whether these processes are appropriate and working as they should. We did not assess directly the adequacy of services to clients, nor the qualifications and suitability of social workers, or the standards of social work practice used by the ministry.

We examined the ministry's human resource management processes for social work staff providing services to families, children and persons with a mental handicap. We identified the main human resource management processes developed at head office, evaluated their implementation throughout the organization, and assessed whether they achieved their desired results with social work staff in district offices. We obtained information about the processes, their implementation and their effect on social work staff by reviewing documentation and interviewing staff at all levels throughout the province. As well, we conducted a written survey of all district supervisors and a sample of over 300 social workers across the ministry.

We conducted our audit from May to November 1991. Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

## OVERALL CONCLUSION

In 1988, the ministry decided to change the way in which it ensures that the social services it provides are adequate. It decided it should rely more on the professional judgement of social workers for the adequacy of its social services, and less on the workers' compliance with detailed procedures. Recognizing that the success of professional social service delivery depends on the knowledge, skills, abilities and attitudes of its social

**workers, the ministry has recently devoted considerable effort to improving the human resource management of social work staff. However, because it has not managed its internal change process in a sufficiently coordinated and focused manner, in general the implementation of professional resource management processes has not yet achieved the desired results.**

**We concluded that the ministry's staffing processes are not sufficient to establish that new staff can meet ministry expectations; performance monitoring processes do not provide sufficient information to know whether social work practice meets professional standards; and processes to motivate and develop social work staff must be improved to achieve their desired results.**

## Delivering Social Services

In supplying services to families, children and persons with a mental handicap, the ministry employs a staff of social workers who work in district offices throughout the province. Social work staff number about 700 in the family and children's services, and about 200 in services to persons with a mental handicap. Their responsibilities include investigating situations to determine whether children are at risk, helping families and individuals obtain the specialized services they require, and coordinating the provision of these services.

Because the decisions that a social worker makes can deeply affect people's lives, the ministry is attempting to develop processes that promote sound professional judgment. The ministry's processes to obtain staff, monitor their performance, and motivate them are a significant part of its human resource management. The ministry relies on these processes to know that its social workers have the knowledge, skills, abilities and attitudes to provide quality social services.

The ministry has worked hard recently to try to improve the human resource management of its social workers. Most notably, it has added social workers and increased the number of district supervisors in order to augment the amount of supervision and consultation available to social workers. As well, it has created a new senior social worker position the ministry believes can better compensate and recognize experienced staff who demonstrate a high standard of competence.

The ministry produces business plans yearly, and has begun to develop program plans for its different services. It has also introduced a planning process for allocating staff and planning the acquisition of human resources. As well, to address the difficulties of attracting qualified staff and keeping them, the ministry has developed a set of recruitment and retention initiatives. These include the systematic orientation and training of new staff. To monitor social work practice, it is now developing and introducing standards of professional practice, and implementing a proactive audit process.

These developments are a measure of the ministry's commitment to manage change in a business that is difficult, and in a public sector environment where resources are finite and actions

must be coordinated with central agencies and other ministries.

The Ministry of Social Services operates within the larger government context and is required to function within the personnel management framework established for government. Under the authority of the *Public Service Act*, for instance, the Minister of Government Services, assisted by the Government Personnel Services Division, issues directives on a broad range of personnel management matters, including recruitment, selection and appointment of staff; training and development; health and safety of employees; job evaluation and classification; and rates of compensation. The Estimates set a limit on the human resources that may be employed by a ministry.

Within these limits, each deputy minister is responsible for ensuring that his or her ministry is organized and structured to achieve program objectives in the most economic and efficient manner. Accordingly, ministries should make it a priority to obtain the right staff, monitor performance to see that work expectations are met, and motivate their staff to improve efficiency and economy.

## Staffing

The ministry relies on its staffing procedures to hire people who will be able to meet its expectations. These procedures are:

- planning, to determine the number, type and location of staff it will require in the future to provide services;
- recruitment and selection, to attract and hire qualified candidates; and
- training and probation, to ensure that new staff have the knowledge, skills and abilities to meet ministry expectations.

### Planning

The ministry has a process for planning staff requirements in the short term and allocating personnel from year to year. However, we concluded that, with existing planning processes, the ministry is not able to tell the number and type of social workers it will require in the long term, and when and where it will require them. Without this information, it cannot plan its long-term staffing requirements.

To address human resource planning issues, the ministry has developed a "Manpower Planning Process." This process aims for an equitable allocation of existing staff among regions, based on comparative indicators of workload. As well, it is designed to allow the ministry to use its yearly employee allocation fully and to direct staff to areas of greatest need. However, the process does not yet incorporate long-term supply and demand considerations, focusing instead on year-to-year resource planning and allocation.

To anticipate its staffing requirements over time, the ministry would have to estimate the future demand for social services and the future supply of appropriately qualified staff, and compare the two. Action could then be taken to deal with the projected surplus or deficit.

Although the ministry gathers information on regional and provincial population trends and their general implications for social services, it lacks a way of translating this information into projected demand for staff. For example, projected increases in the number of young families in certain

areas of the province could indicate the likelihood of an increased demand for family and children's services' social workers there. Conversely, projected reductions in segments of the population in other areas could point to possible overstaffing in those places. By estimating the future demand for staff, the ministry can determine whether it will likely have to retrain or transfer existing staff, or hire new employees to meet the changing demand for social services. This could affect the ministry's planning for training programs, recruitment initiatives, and budget allocation.

The ministry now has very limited data on its employees and lacks comprehensive information on individual career plans, promotion potential, retirement profiles, and staff turnover. The ministry recognizes the value of this information and has initiated the development of a human resource management information system to address its needs. These planned improvements to the information system should help the ministry plan its future staffing.

The ministry does not have a way to estimate the likely future supply of social workers, such as tracking how many graduates from schools of social work are expected to enter the job market each year. As a result, it is not in a good position to know when to encourage an increase in the supply of social workers. To address this issue, however, the ministry has recently begun maintaining a liaison with the schools of social work in the province. It contributes to their curriculum development, participates in professional exchanges, and provides practical work experience for social work students. As well, the ministry has established relationships with other ministries and social service agencies to assist in the planning process.

## Recruitment and Selection

To recruit staff that are able to meet professional standards of social work practice, the ministry has identified a preference for degrees in social work, but also recruits candidates with other qualifications and experience. We concluded, however, that the ministry does not have a focused and well-coordinated recruitment strategy to help it move towards its goal of relying more on the professional judgment of its social workers.

The ministry's selection process is intended to assess candidates for social work positions and select those that have the knowledge, skills and abilities to meet the ministry's standard for professional practice. We concluded that the ministry's selection process, as it is currently structured, does not assess candidates sufficiently to allow the ministry to be reasonably sure they can meet its expectations.

### *Recruitment*

The ministry's decision to move to a service delivery model that depends more on the professional judgment of staff, and less on compliance with detailed procedures, means that social workers must have the ability to exercise professional judgment. When the ministry recruits people with social work degrees, it has reasonable assurance that they have the basic knowledge and skills to exercise this judgment. When the ministry recruits people without such a degree, it does not have that assurance. In that case, the ministry's recruitment efforts should be targeted to individuals who are likely to have the basic

knowledge and skills required for professional social work.

When it advertises to recruit new staff, the ministry indicates a preference for applicants with a social work degree or its equivalent, and it receives applications from people with diverse backgrounds.

Because the ministry has a broad definition of equivalency that includes a range of education and practical experience, those deciding which candidates will be considered during the selection process are provided with considerable discretion. We found that the preferences of those making the decisions as to which applicants would be considered for selection varied from region to region. We believe that this, combined with the discretion afforded by the broad definition of equivalency, creates a risk that applicants who are not the best suited to the ministry's desired professional model of social services delivery may be considered for the selection process. In our view, this risk increases when there is a pressing need to fill a position and the ministry has difficulty attracting properly qualified applicants.

The ministry has begun to develop a more focused and coordinated approach to recruiting university graduates in social work. Ministry recruiters visit schools of social work in the province each year to attract graduates, and some students whose practical work placements are with the ministry are hired after graduation. When it cannot find social work graduates within the province, the ministry sends recruiters to other provinces.

We believe the ministry should take a strategic approach to attracting the candidates it wants in order to improve the consistency of the ministry's staffing practices and increase the likelihood that people who are recruited meet ministry requirements. Some short-term elements, such as numbers, location and timing, are now in place through the ministry's manpower planning process. However, a complete strategy would also include long-term elements such as recruitment goals clearly set in terms of desired qualifications, the employment market segmented and groups of potential qualified applicants identified; recruitment methods targeted to those groups according to their profile and to the ministry's specific staffing requirements.

### *Selection*

Because of the different backgrounds of applicants to ministry positions and the inherent difficulty of social work, the ministry's selection process is critical for hiring people that have the required qualifications, experience and suitability for the job.

In its selection process, the ministry's goals of a professional standard of social work and specialized social services should determine the requirements of the job. The ministry's selection criteria should be based on requirements of knowledge, skills, and abilities for the position.

To select individuals for social work positions, a panel of managers conducts interviews. In keeping with the *Public Service Act*, the paneling process must be carried out in a way that guarantees the successful candidate is chosen solely on the basis of merit. To meet this requirement, the ministry believes it should restrict its interview format to questions that test the applicant's formal knowledge and verbal skills. For this reason, the ministry generally does not use the range of methods it could, such as role-playing and simulation, to evaluate candidates fully. This makes it difficult for the ministry to appraise

professional abilities and aptitude for the job, both key factors for successful performance. Staff involved in the paneling process generally agree with our assessment.

The ministry is examining this issue in conjunction with government personnel services. We believe, however, that it could make a number of significant improvements within the existing framework of government personnel regulations. Allowing the selection process to focus more on candidates' ability to exercise sound professional judgment would better reflect the ministry's professional approach to its social work practice.

Because the selection process is not assessing applicants fully, the training and probation process to screen new workers takes on greater importance.

## Training and Probation

When the ministry hires a new social worker, it provides training so that the person can carry out the work, and it uses a probation period to observe and assess specific work performance. Probation is the last step in the staffing process and it provides the opportunity to confirm suitability for the job role.

We found that the ministry's training is dispensed systematically and provides a basis for skill development. However, the training does not ensure that new staff acquire the basic social work knowledge required for the job, and probation is not carried out consistently across the ministry. As a result, we believe that the training and probation processes do not give the ministry sufficient assurance that new staff can, and do, meet its performance expectations.

### *Training*

The ministry provides introductory training in two ways. During probation, each new worker has two one-week training sessions at the ministry's training center in Vancouver. In addition, district supervisors or senior social workers provide on-the-job training.

The ministry's central training provides new staff with a good orientation to the ministry and to their jobs. The training also give new staff a good introduction to the specialized skills that are required for the different types of social work in the ministry.

All new social workers receive this central training regardless of their prior experience or qualifications. Although most of the information the ministry provides is useful to all new staff, we believe that course content dealing with basic social work knowledge is insufficient for persons without a social work degree. At the time of our audit, staff responsible for training estimated that half the new staff attending central training did not have a social work degree.

The ministry assesses its central training programs by collecting written feedback from participants. It does not have a process, however, to evaluate the merits of its training programs against work requirements in the districts. Furthermore, it has no systematic assessment of training costs. As a result, the ministry does not know whether its central training is cost-effective. The ministry has, however, begun to introduce regional training centers in an effort to make all levels of training more accessible to staff, and less costly.

We found that on-the-job training is not given in a consistent or structured fashion. The busier the district office and the supervisor or senior staff, the

less training is provided. The ministry has started to address this problem in part, with an on-the-job training manual for family and children's services.

### *Probation*

The ministry puts all its new social workers through a six-month probation before appointing them permanently, to determine whether their performance meets its expectations. District supervisors are required to evaluate probationary performance against detailed performance expectations set out in letters of expectation, manuals describing ministry policies, procedures and standards of professional practice, and in on-the-job training manuals. The ministry also provides to district supervisors specific training in how to assess probation and has developed an appraisal guide to assist in the process. We found, however, that a majority of district supervisors did not consider the training adequate. Although two thirds of district supervisors consider the ministry has a clearly defined process and established criteria to evaluate probationary performance, one third do not. Furthermore, when asked whether, in their view, the ministry has clear guidelines for terminating probation, half the district supervisors said it had not.

Overall, these findings indicate to us that, although the ministry has developed a probationary process that is well understood generally by line management, one out of two district supervisors is having difficulty with implementation. For this reason, we do not think the ministry has sufficient assurance that its probation process is monitoring the performance of new staff to the levels it expects.

## Monitoring Performance

The ministry assesses the performance of its social workers by establishing its expectations about social work practice and then monitoring staff performance to see that its expectations are being met.

### Establishing Expectations

The ministry makes its expectations known to staff in a number of ways: it provides social workers with a letter of expectation when they start in a new position; it documents expectations in manuals that describe ministry policies, procedures and standards of professional practice; and it routinely communicates expectations to staff through the general supervision they receive from their superiors.

Overall, we found that ministry social workers know what is expected of them. Almost all the social workers we contacted indicated their role was clear to them. The ministry has begun to develop standards of practice for its social workers for investigations in child protection. We found the ministry's processes for developing and communicating the first set of standards to be adequate. However, we found a significant problem with staff's acceptance of the standards. The ministry has identified the problem through its process for evaluating standards and has begun to review them.

### *Developing Standards*

The move to rely more on the professional judgment of its social workers means that the ministry should be moving away from detailed procedures and instructions to a framework of general standards of practice. The ministry has made it a

priority to introduce standards of practice for its social workers, standards consistent with its mission and goals and with generally accepted standards of professional social work practice.

In 1991, the ministry developed over 60 standards of professional practice for investigations in child protection. Standards of practice have not yet been developed for the other areas of family and children's services. In the absence of practice standards in these other areas, the ministry relies on the policies and procedures contained in its manuals, and on the experience of its district supervisors. The ministry expects that an upcoming review of the *Family and Children's Services Act* will affect current policies and procedures significantly. For this reason, and because the ministry intends to develop standards in all areas of family and children's services, we did not assess the adequacy or appropriateness of the policies and procedures that are still in use.

At the time of our audit, the ministry told us that its policies and procedures for services to persons with a mental handicap were out of date, and that priority was given to rewriting them for the spring of 1992. As well, the ministry did not have a plan to develop standards of practice for services to persons with a mental handicap at that time.

To formulate its new standards of practice for investigations in child protection, the ministry created advisory committees made up of representatives from the British Columbia Association of Social Workers, the Ombudsman, schools of social work, and ministry staff. The ministry reviewed each new standard for consistency with current legislation and with generally accepted standards of practice. An example of generally accepted standards of practice is given in Table 1.4. The table lists the general standards for professional social work practice established by the British Columbia Association of Social Workers.

**TABLE 1.4**

**THE BRITISH COLUMBIA ASSOCIATION OF SOCIAL WORKERS**

**Practice Standards for Professional Social Workers**

**Social workers shall have a clear conception of the philosophy, values, goals and functions of social work practice as defined in the Code of Ethics.**

**Social workers shall demonstrate knowledge basic to the social work profession.**

**Social workers shall demonstrate skill in developing constructive and appropriate interventions with clients.**

**Social workers shall demonstrate skill in the problem-solving process.**

**Social workers shall demonstrate skill and commitment in identifying the needs of client populations to the community, to agencies and to governments as appropriate.**

**Social workers shall fulfill professional responsibilities in the course of social work practice.**

**Social workers shall be responsible for maintaining/advocating for a safe working environment which promotes optimal effectiveness with clients.**

### *Communicating the Standards*

In June 1991, the ministry introduced its new standards for investigations in child protection to its field staff. It gave social workers and district supervisors six months to begin the implementation and to make their concerns about specific standards known to a special standards implementation committee. In addition, a special program on the ministry's province-wide computer system was created so that social work staff could comment, question and receive responses on specific standards. Last, a set of meetings in every region was organized to introduce the standards to social workers and district supervisors.

To assess how well the ministry was communicating with its professional staff about the new standards, we looked at how well the standards were understood by social work staff and how well the feedback processes were working. We found that most social workers and district supervisors believed the standards to be clearly written and well communicated to them. On the other hand, 62% of social workers and 39% of district supervisors did not believe the ministry had adequate feedback processes. We concluded that the ministry had taken appropriate steps to transmit the standards to field staff but that its feedback mechanisms were not yet working well enough to generate the desired level of staff consultation.

### *Evaluating the Standards*

To evaluate how relevant its new standards are to the work in district offices, the ministry relied on the provincial standards implementation committee to receive and review feedback from social work staff. It then planned to modify standards accordingly.

Our findings showed a significant problem with social work staff's acceptance of the new standards. In the interviews we conducted, social workers and district supervisors told us that, in general, they found the standards too lengthy and detailed, more a checklist for compliance than a framework to support and develop professional judgment. We found this to be an important issue as it appeared to jeopardize the implementation of professional standards of practice. In addition, the ministry had to deal with negative reactions from social workers and district supervisors who viewed the standards as inconsistent with the ministry's commitment to a professional approach to social work practice.

At the end of our audit, however, the review process was well underway and a number of changes to the standards were being considered. Furthermore, the ministry has recognized the significance of the problem with the procedural nature of the standards and has begun to review this issue.

## MONITORING

The ministry monitors the overall performance of its staff through general supervision and a yearly written appraisal process. Our findings show that almost half the social workers and district supervisors did not believe that they receive adequate feedback from the ministry on their performance. These findings support the information given to us by social workers and district supervisors we interviewed throughout the province. On this basis, we concluded that the ministry's processes for monitoring overall performance were not working as they should.

To monitor the quality of its staff's social work practice, the ministry is developing specific processes for establishing whether professional staff

are carrying out their work to the standards of practice it has already set. It is doing this in two ways. First, it has changed the focus and scope of district supervisors' work to give them more time to provide case supervision to their staff. Second, the ministry has organized a team of auditors who visit each district office to appraise and report on the performance of the office. These audits focus, for the most part, on the work that is carried out in services to families and children.

We concluded that, at present, the case supervision and audit processes are not implemented in a way that allows the ministry to monitor social work practice fully. Both look at only part of the work that is carried out; they do not assess systematically all relevant aspects of social work practice, particularly the exercise of professional judgment. Because the social worker's judgment is critical to the client, and is the basis on which the quality of social work practice can be appraised, we think the exercise of professional judgment should be central to the supervision and audit processes.

### *Performance Appraisals*

Although the ministry has a performance appraisal process, we found that it is not reliable for monitoring and assessing the overall performance of social workers. Approximately 40% of district supervisors told us that they do not carry out yearly performance appraisals for social workers, and almost half said that they do not believe the process is useful. In turn, over 60% of district supervisors indicated they do not receive yearly written performance appraisals themselves. Supervisory staff do receive training on how to conduct performance appraisals, but we found that many district supervisors consider the training inadequate for their needs. The inconsistency of annual performance reviews makes it difficult for the ministry to identify opportunities to improve performance.

We did find a good performance appraisal process in use for senior regional managers of operations, however. Appraisals were regularly conducted and linked directly to yearly work plans that, in turn, were related to ministry goals. We believe this process should be adapted and extended to all management, district supervisors, and social workers.

### *Case Supervision*

The ministry monitors the quality of social work practice through case supervision. Case supervision focuses usually on monitoring that social worker actions comply with ministry procedures. Approximately three-quarters of the social workers we contacted said they were satisfied with the quality and frequency of case supervision. On the other hand, 43% of district supervisors expressed dissatisfaction with the quality of the training they received in case supervision and 57% expressed dissatisfaction with the availability of training for them in this area.

We found that the ministry's case supervision does not focus on the systematic development and exercise of professional judgment by its social workers. This focus, however, is central to a generally accepted form of supervision in the social work profession referred to as "clinical supervision." Also, it is generally accepted that, to be effective, clinical supervision should be given regularly and consistently by appropriately trained supervisors. Because the ministry has started to rely increasingly on the professional judgment of its social workers for the adequacy of its practice, and will do so

more in the future, we believe that clinical supervision of social work staff is required.

### *Auditing District Offices*

The ministry's Inspections and Standards Unit has auditors who review files in district offices to verify compliance with ministry policies, procedures, and standards. This audit process focuses on the degree to which all the required documentation is present in the files. An audit records the number of documents that are either missing or incomplete in randomly selected client files, but it does not explain deficiencies in terms of social work practice. We think the usefulness of the audits for line management is questionable. We found that more than half the district supervisors do not find the results of the Inspections and Standards audits to be very useful in their work.

Although the audits provide some useful information, they do not address issues that are critical to the adequacy of social services, such as the exercise of professional judgment. Summary reports to senior management list quantitative data on compliance but do not include contextual information that helps to explain the performance of an office, such as an unusual rate of staff turnover. As a result, the usefulness of the audit process is limited in its ability to provide senior management with an overall assessment of how an office is doing and an indication of the adequacy of services to ministry clients. This limitation appears to extend to staff in district offices: roughly half the social workers and district supervisors believe the ministry does not provide them with general feedback on the performance of their office.

## Motivating and Developing

An organization's human resources are one of its most valuable assets. Today's management practices recognize the link between the general condition of a workforce and its output. A motivated group of employees will be more productive generally than one that is not. Similarly, a worker who is satisfied with the work environment is less likely to be absent or leave than one who is dissatisfied. These examples illustrate the relationship between the feelings and perceptions staff have of their work environment, and how the work gets done.

The ministry has been developing initiatives and processes to maintain and develop its professional resource asset. Efforts have been expended to increase training, to provide recognition, to elicit participation from staff, to deal with stress, and to retain workers. Despite these endeavors, our findings show a significant gap between what the ministry is trying to achieve through motivation and development, and how its social workers and district supervisors perceive the ministry's efforts.

Our findings suggest that this gap between the expectations of ministry management and district staff creates some dissatisfaction among social workers and district supervisors. Although the nature of the work is difficult in itself and staff morale can be greatly tested in the field of child welfare, we found that staff dissatisfaction lay mostly with the work environment rather than with the nature of the work itself. Two out of three social workers and three out of four district supervisors expressed

satisfaction with the nature of the work they are doing.

We believe this expectations gap between the ministry's central management and its field social work staff is a matter that must be addressed to facilitate the achievement of ministry goals. The ministry must give priority to ascertaining the reasons for this disparity and then take appropriate steps to address it.

## Motivating Staff

The ministry wants to motivate its employees to perform well, so that it can improve its productivity and the efficiency of its operations. In general, motivating processes include recognizing good performance, matching personal goals with organizational objectives, encouraging staff feedback and participation, and providing a good working environment. The ministry has taken several of these steps, but most social workers we contacted do not consider that these initiatives motivate them. For example, we found that about two out of three social workers and district supervisors do not believe that the ministry regularly seeks information from them on ways to improve its operations; and about three quarters of social workers and over half of district supervisors do not believe that the ministry acts on their feedback.

On the other hand, all the social workers and districts supervisors we talked to were motivated by a strong individual commitment to doing their best for the client. Generally, social workers praised the way in which district supervisors managed their teams.

### *Working Environment*

The ministry recognizes that its staff is its most valuable resource for providing adequate, efficient, and economical social services. Because the behavior of staff is based generally on the perception they have of their work environment, we reviewed three key factors: job-related stress, workplace safety, and working conditions. The information we gathered indicates that staff experience significant levels of job-related stress, that they are anxious over workplace safety, and that they are dissatisfied with some working conditions. We found a positive correlation between job-related stress, concerns over safety, and staff's intention to leave the job. Although intention to leave may, for a number of reasons, not result in actual departure, we believe it is a good indicator of employee job satisfaction. As well, we recognize that these concerns are common to child welfare professionals in most jurisdictions.

### *Job-related Stress*

The problem of job-related stress is recognized by the provincial public service, which offers an employee assistance program to all staff. For its part, the ministry has developed a "critical incident" program designed to help employees cope with work-related events that are especially stressful, like an assault on a worker or the death of a client. As well, the ministry has developed a "Health and Attendance Promotion Program" designed to promote health in the workforce and encourage staff on sick leave to return to work as soon as possible.

Despite the ministry's efforts to deal with stress, our findings suggest that more needs to be done. Forty percent of social workers and 45% of district supervisors indicated to us that they are experiencing job-related stress. Stress brought on by work can have negative effects for both the individual and the organization, as illustrated in Figure 1.5.

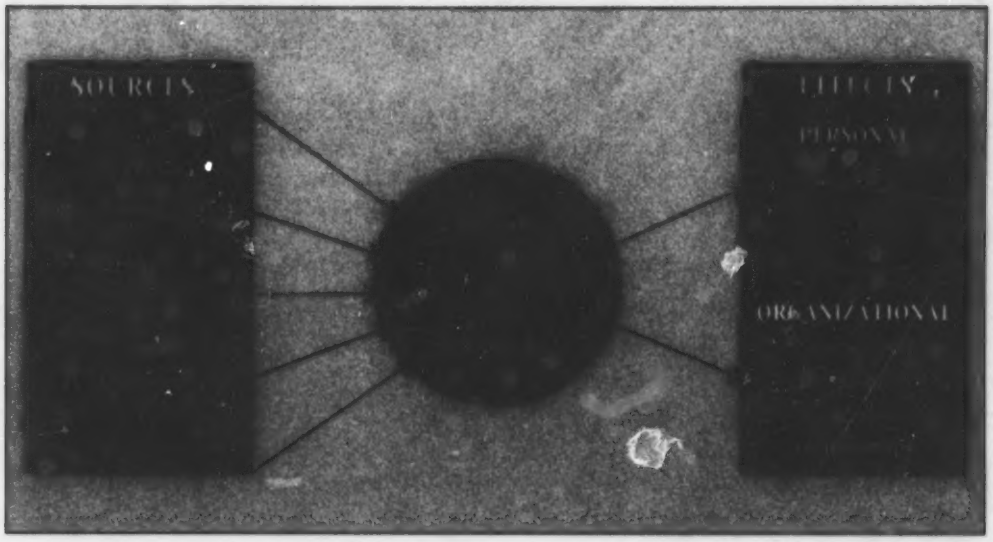



**FIGURE 1.5**

Sources and Effects of Work-related Stress

*Source: White and Bednar, "Organizational Behavior" (1991), Allyn & Bacon Publishers*

Although ministry staff can avail themselves of the government-wide employee assistance program, we did not find ministry programs designed to address stress-related issues specific to social work, such as the effect of stress on professional judgment. The "critical incident" program for social workers may assist in addressing these concerns.

We found that reviews of cases involving children conducted by the Superintendent of Family and Children's Services trigger anxiety in staff, despite the fact that most reviews do not find fault with the professional. We found that this anxiety was due mostly to poor communication between the ministry and its professional staff about the inspection and review processes.

### *Workplace Safety*

The ministry has made physical safety a priority in several services and locations, particularly in income assistance services. Approximately half the number of social workers and district supervisors we communicated with believe they are exposed to physical dangers on the job. The ministry has general guidelines for its staff to follow if they feel that their safety is compromised. For example, a social worker can ask to be accompanied by a police officer if there is a risk of violence in a child protection investigation.

While the ministry is taking steps to address employee safety, approximately one-quarter of the staff in the services we audited believed that their work environment was not safe. We think that this is another area in which the ministry should review whether additional communication or other action is required.

### *Working Conditions*

The ministry has taken several steps to improve the working conditions of its staff. It has tried to reduce the average number of cases for social workers, simplify administrative procedures, reduce paperwork, and develop information technology. It has also reduced the number of staff that district supervisors have to manage, by introducing area managers in all regions.

However, many social workers and district supervisors still believe their workload is more than they can manage and, as a result, they express concern about their ability to provide adequate

social services. For example, a majority of social work staff expresses concern about their ability to ensure continuity of service to clients. The ministry is conducting studies to establish what constitutes a reasonable workload for social workers. Nevertheless differences in what staff consider to be a reasonable workload and what the ministry considers to be reasonable, indicates a problem that the ministry needs to address.

Although the ministry is developing a computerized information system for social workers, few desktop computers are available for them. Most social workers and district supervisors told us that their efficiency is hampered by the lack of tools such as word processors and fax machines. When asked if the ministry delivered social services efficiently, 61% of social workers and 44% of district supervisors said it did not.

The ministry has made substantial progress in providing social work staff with adequate space and individual offices. Although not all district offices have been upgraded, the ministry remains committed to improving physical working conditions for its personnel.

## Developing Staff

By encouraging its social workers to acquire and develop professional knowledge, skills, and abilities, the ministry aims to improve the quality and the efficient delivery of its social services to clients.

The ministry allocates funds for professional training for its social workers and district supervisors. It also offers other learning opportunities such as conference participation and regional, inter-ministry, and international exchanges. As well, it supports social work staff wishing to upgrade their academic training to the Bachelor or Master of Social Work level, and has set up committees to look at improving access to professional training through decentralized training centers and libraries.

We concluded that the ministry is giving adequate priority to staff development in the attention it pays to management and in the funds it allocates. Furthermore, the type of programs the ministry is developing are appropriate for professional development. However, we found that the professional development needs for individuals are not well identified, and that training programs are not consistently available across the ministry.

### *Professional Development Needs*

Training should be matched to each social worker's performance and individual career plan, as well as to ministry goals. The match can be made in two ways: through individual supervision and through annual performance appraisals. Typically, however, supervision focuses on case management and does not include issues of professional development. Also, as already pointed out, the lack of consistent application in the ministry's conduct of annual performance appraisals make the identification of training needs difficult.

Our findings show that, although 90% of social work staff believe they have the necessary skills, 26% of social workers and 29% of district supervisors do not believe they have sufficient training to do their job.

These data suggest that a significant number of social work staff require additional professional development to increase their social work knowledge.

For this reason, we believe it is important for the ministry to better identify each staff member's training needs, and promote the professional development which will allow social workers and district supervisors to use their skills fully and appropriately.

### *Availability of Training*

On-going training courses are put on by the ministry and brought in from outside. However, staff believe that training is not available consistently for social workers and district supervisors across the province. About two thirds of social workers and just under half the district supervisors did not think the ministry provided adequate in-service training. Staffing problems in some district offices make it difficult for staff to find the time to attend outside courses. In more remote areas, workload pressures due to staffing problems, combined with few relevant professional development programs, make continuing study elusive for social workers and district supervisors. In our opinion, this compounds the existing difficulties of retaining staff in remote areas.

## Looking Ahead

The ministry should re-evaluate the way in which it is implementing the change to a professional standard of social services, to make sure that its human resource management processes are consistent with that approach.

In order for the change in service delivery from a procedural orientation to a professional approach to be successful, we believe that changes to the ministry's human resource management practices are required. The ministry should take steps to focus its staffing procedures in a way that provides more assurance that it is hiring people who will be able to meet its expectations. Furthermore, its processes for monitoring and improving the performance of social workers should focus on the exercise of professional judgment, and be based on generally accepted standards of practice for the social work profession.

*The Ministry of Social Services acknowledges the value-for-money audits completed in 1991. There were three public reports which addressed Programs for Independence, Residential Services, and Managing Professional Resources.*

*The Ministry recognizes the value of external audits and is currently reviewing the recommendations and comments in the reports. Before responding to each report, the Ministry considers it important to outline the mandate and the service environment through which a range of services are made available to persons in need.*

*The Ministry serves the people of British Columbia by helping them during times of need and assisting them to regain or maximize their independence. Through a network of almost 300 district offices, ministry staff are engaged daily in assessing need for welfare benefits, responding to reports that children are in need of protection, arranging for placement of children in foster homes and residential resources, and assisting persons with mental handicaps in their adjustment to the community. These are but a few of the service challenges that ministry line staff deal with each day. The frequency and variety of service requests attest to the range of skills and duties and the commitment that staff bring to the work of the Ministry. Over 5000 staff form the nucleus of the Ministry's operations in bringing services to people. In the 1991/92 fiscal year, the services provided by the Ministry will result in an expenditure of over $2,000,000,000.*

*Given the magnitude of its budgetary responsibility, the Ministry is well aware of the obligations not only to the clients but to the legislature and the people of the province. It is in this context that the findings of the Auditor General are being reviewed. The conclusions contained in the reports bear witness to the Ministry's own assessment of areas which need strengthening and are reflected in many of the initiatives currently underway. These are addressed in the Specific Responses which follow.*

## PROGRAMS FOR INDEPENDENCE

*The Ministry of Social Services is pleased to be able to work together with the Auditor General, through this written response, to ensure the contents of the report are accurate, and that the recommendations and their impact and implications are clearly understood by the reader.*

### OVERALL CONCLUSIONS

*It is gratifying that the Auditor General has confirmed that the Ministry already has in place reasonable procedures that minimize incorrect income assistance payments, and that the programs and services have helped people to become independent of income assistance.*

*The Ministry agrees with the overall conclusions that improvements can be made to estimate the overall extent of incorrect payments, and that information and supervision can be refined to better assist Ministry staff to carry out their work.*

*The Ministry's main objective in the Programs for Independence is to provide money, in correct amounts, to enable the poor to be fed and housed. Often, the pressures of dealing with the rapidly increasing volume of needy individuals and families has led to priorities being placed on this primary goal, rather than assigning more staff to detect and check error.*

*The Ministry is planning and already implementing several improvements to address the concerns the auditors have*

*raised. These are documented further in the following text.*

### *Minimizing Incorrect Payments*

*The Ministry has devised a plan to implement a formal eligibility checking system that will more systematically count error and loss in the system of issuing payments. For the past 5 years an ad hoc system has been in place to randomly review cases in pay. The new system includes a staff group, trained in detection procedures, reporting to specialists in error identification. As well, a study will be conducted to establish baseline error levels against which detection efforts can be annually compared. This information, coupled with internal audit and vastly improved fraud detection counting, will form the basis for publicly reporting the total efforts of the Ministry in identifying and detecting error.*

### *Assessing Appropriateness of Procedures*

*Assessing the cost benefit of procedures used to identify and detect error is important. For instance, the Ministry knows that home visits are cost beneficial. Part of the new plan includes establishing a permanent eligibility verification team, that will augment the number of home visits now conducted by financial assistance workers. As well, the consistent tracking of a variety of other eligibility checking procedures, such as tape matching, file reviews, and in-office cheque pickup will be assessed to determine their value. In this fashion more beneficial procedures can be selected over other more costly activities.*

*Surveillance, as a routine, is an extremely costly activity because it is labour intensive. It is now only used when other techniques cannot be successful. The cost implications make it a viable technique only on serious offenses where there are reasonable grounds to believe an offense has occurred, or where the Ministry wishes to verify a suspect's involvement in an offense. There is a value in surveillance, but due to the high costs, it is only used in extraordinary situations. Specific direction on the use of surveillance is being written into policy for Investigators, and will only be authorized by the Investigator's Area Manager, and with consultation from the headquarters-based Program Manager who is expert in investigation procedures.*

### *Staff Orientation to Procedures*

*Ministry manuals clearly specify that when a person is ineligible for assistance the client has the right to appeal the decision. The guidelines for closure of the cases are clear, however, appeal tribunals may make decisions, contrary to the guidelines, when they feel it is in the best interest of the client. In 1990/91, 60 percent of all cases filed by a client for appeal to a tribunal were overturned, in favour of the client. This factor must be taken into account in a system that is designed to allow discretion to staff to meet the individual needs of clients.*

*In order to improve routine case monitoring by supervisors of staff who provide benefits, a new monitoring manual is being developed. This manual will further outline steps supervisors will take to ensure that Ministry line staff are complying with Ministry policies and procedures.*

*Following introduction of the manual, a new component will be added to supervisor core training, covering monitoring concepts and their application, and fraud detection training will be added to the financial assistance workers core training program.*

*In addition, when new policy manuals are introduced, a formal procedure will be followed to ensure that all local office staff are introduced to the new procedures in a routine fashion. This is being done right*

*now with the new Family Maintenance policy manual.*

### *Staff Supervision*

*District Supervisors of local income assistance offices were hired in the Spring of 1988 with extensive program knowledge but little supervisory experience. Since then, the Ministry has provided its 100 supervisors with three modules of supervisory core training. The Ministry will be introducing a fourth module of training in the Spring of 1992, which will include techniques for monitoring cases. It will also include further direction on how to evaluate a worker's compliance with policy. To assist the supervisors further, the new eligibility verification team members will be available to assist with case monitoring, and will report their findings to local and senior management.*

### *Employment Initiatives Program*

*The Ministry's Rehabilitation Officers, the front line staff, serve a vast number of people who are unable or cannot use the mainstream programs provided by the federal government through the Canadian Job Strategy. The Ministry's programs augment these services, but still deal with a larger group than programs and staff can handle. The Assessment and Referral System was originally added to provide a computer tool for staff to use in providing quicker access for clients to available programs. It was introduced in the face of a rapidly increasing and changing world of programs.*

*The Ministry recognizes that the system needs some improvements to meet today's demands. Systems enhancements are being planned for introduction in the Summer of 1992. At the same time all staff will be retrained in the use of the system. This will result in more efficient use of the system and improved client access to both federal and provincial programs.*

### *Assessing Appropriateness of Procedures*

*The Ministry has in the past carried out studies that demonstrate the value of spending money to train and retrain people, to improve their efforts in finding employment. These Employment Initiatives Programs expenditures are known to reduce the length of stay on income assistance. The Ministry is doing an exit survey to determine program results after people have left the training programs. This information will guide the future development of employment and training programs. Further joint studies with the federal government are planned to assess the success of these programs in enhancing the employability of income assistance clients.*

### *Public Accountability*

*The Ministry has consistently published available information in the annual report regarding the Investigators Program and the Income Assistance Program. When better information from improved information collection becomes available, likely for the 1992/93 fiscal year, reporting will be substantially improved. This is planned as well for the Family Maintenance Program, which has just added a new computer information system. The Ministry recognizes the need for better public reporting that demonstrates program outcomes.*

### *Looking Ahead*

*The Ministry agrees with the final conclusion of the Auditor General's report, that steps have already been taken to focus on developing new counting procedures, improving manual introduction, more training programs, and enhanced performance indicators. Plans that are under development and implementation*

*already underway will substantially improve information for use by Ministry management in assessing the effectiveness of its programs. In turn, better information will enable the Ministry to improve public accountability for its program expenditure.*

*The Ministry appreciates this value for money review, which has identified the existing strengths of the income assistance delivery system and refocused attention on the refinements that are still needed.*

*The Report acknowledges that the Ministry's service delivery organization is appropriate and conducive to responding to the differing needs of its clients within their own communities. The Ministry's primary service goal is to make its services accessible to its clients and support local management in planning and decision-making.*

*The Report speaks to the need for more adequate processes to ensure the Ministry's residential services are appropriate and cost-effective, including clearly defined service delivery expectations linked to an effective monitoring system.*

*The Report comes as no surprise to the Ministry as the majority of the items identified are already in progress. In the Fall of 1990, the Contract Management Review Project was initiated. Contracting with local service providers is the major tool by which residential services are provided to children-in-care and persons with mental handicaps. From this Project, a draft manual called "A Guide to Contract Management" was released in February 1992. In line with the Ministry's goal of strengthening our partnerships, a consultative process is now underway with feedback being sought from staff, service providers and major stakeholder groups. In conjunction with the manual, a comprehensive staff training program is being developed for those staff with contract management duties. This strategy acknowledges the need for more interaction with local service providers and other ministries which contract with local agencies. As the Report has outlined, the contracting project is geared to improving services delivered through increased emphasis and accountability in contract planning, selection, award, negotiation and monitoring and evaluation.*

*With reference to children-in-care, the Report notes that contract expectations must be linked to operational goals. A panel reviewing child protection legislation is currently holding community consultation meetings throughout the province. New child welfare legislation is expected to be introduced in the legislature in 1993, with implementation scheduled for the Spring of 1994. This process is the starting point for clarifying the goals and objectives for all services to children-in-care including residential.*

*Additionally the standards now being drafted for children in residential facilities will assist ministry staff in clarifying and communicating contractual service and performance expectations. These standards will form part of our contractual agreement with service providers. The development and introduction of standards for persons with mental handicaps in residential facilities has assisted service providers to have a clear understanding of ministry expectations.*

*Another initiative underway in both areas of residential services is the Levels of Care Project. This review is intended to rationalize payment fee for service according to the levels of care that residents need with the skills, qualifications and expectations of contracted service providers. The Levels of Care/Family Care Model is being phased in over the next two years, with policy and procedures introduced in December 1991. The Levels of Care project for services to persons with mental handicaps also involves an inter-ministry*

*working group. Implementation is planned for 1993/94.*

*Two important considerations arising from the Report are the need for better information to assess cost-effectiveness in looking at service delivery options and the need to evaluate the results. As part of the Contract Management Project, a contract management information system has been initiated. This will provide an on-line registry of all contracts with cost and demographic data to allow for effective cost-analysis. As referenced in the 1991/92 Business Plan, the Ministry is committed to outcome evaluation. A ministry evaluation policy has been written and adopted. All ministry programs will have clearly stated goals and objectives and quantifiable critical success factors. An evaluation strategy will be developed for each program. The Ministry Executive will annually endorse an evaluation plan to ensure the Ministry has effective outcome information to assist in program planning and budget priority setting.*

### LOOKING AHEAD

*As the Report indicates, the Ministry's own planning process has been instrumental in initiating projects and remedies to strengthen and improve many of the areas addressed in the Report. We are continuing in our goal of ensuring quality service delivery with fair and responsible practices that reflect prudent administration and public accountability.*

## MANAGING PROFESSIONAL RESOURCES

*The Ministry of Social Services recognizes and appreciates the efforts and intentions of the Office of the Auditor General in its review of the Ministry's human resource management processes. The audit was one of the first value-for-money audits of human resource management undertaken by the Office of the Auditor General and the report acknowledges that the audit did not assess directly the adequacy of services to clients, the qualifications and suitability of social workers, or the standards of social work practice used by the Ministry. The audit conclusions and recommendations are, in some cases, based on a direct examination of Ministry human resource management processes, and in others on staff perceptions about the processes.*

*The Ministry recognizes the importance of its human resources and has, accordingly, placed a high priority on human resource management processes to support the professional social workers delivering services to Ministry clients. The high quality of these services is a positive reflection of the professionalism of Ministry staff, and their commitment to and pride in their work.*

*Considerable changes have been carried out recently to the way in which social services are delivered, requiring substantial changes to Ministry professional resource management processes. With the establishment of the Community Panel on Child Protection Legislation Review in November of 1991, to review the legislative context in which Ministry social workers operate, it is anticipated that further significant changes will be required.*

*Ministry professional resource management initiatives have focused on four areas: the recruitment of professionally qualified staff; a training plan for social work positions; strengthening the professional basis of service delivery; and improving the working environment for social work staff.*

### THE RECRUITMENT OF PROFESSIONALLY QUALIFIED STAFF

*The Ministry's staffing processes, in addition to meeting or exceeding the standards established for provincial government ministries, focus on the*

*particular professional requirements of Ministry social work jobs.*

*The Ministry ensures that its staffing criteria are consistent with the competency requirements of social work positions, and that staff selection is in accord with the merit principle established by the Public Service Act. As well, Ministry standards must not include systemic barriers, as part of our commitment to achieving employment equity program goals. The Auditor General has recognized the critical importance of recruitment and selection processes for the achievement of the Ministry's goal of delivering high quality social services to clients, and has made recommendations for extending present Ministry selection testing processes. The Ministry will carefully consider these recommendations and their anticipated costs and benefits.*

*The Ministry has established specific qualifications for recruiting new staff with a preference for applicants with a Master of Social Work or Bachelor of Social Work. The Ministry also recognizes competency acquired through a combination of equivalent education and experience for both entrance and senior social worker practitioner positions. The special knowledge acquired in a number of fields provides a valuable contribution to the wide range and specialized nature of Ministry services to families and children, and people with mental handicaps.*

*The Auditor General has recommended that the Ministry increase its emphasis on the recruitment of social work graduates. This recommendation is consistent with Ministry goals. The Ministry will look for ways to enhance opportunities to hire social work graduates, with training to Ministry job role requirements.*

## THE PROFESSIONAL SOCIAL WORKER: A TRAINING PLAN

*The Ministry has an established plan to orient and train newly hired social workers, and to assist social workers to progress to the senior working level. All social workers new to the Ministry require training and a period of professional supervision, in order to acquire the knowledge and skills required for social work positions in the Ministry. Ministry social workers can then continue their professional development through additional training and experience and progress to the senior working level.*

*The Ministry, working with other provincial ministries, played a primary role in the introduction of a new professional classification series and the creation of a senior practitioner level. The Ministry worked with the central agency, Government Personnel Services Division (GPSD), and other ministries employing social workers to extend the new classification series to all social workers in government, and to improve compensation and classification recognition to the newly established senior practitioner level.*

*The additional expertise gained by completing a professional social work degree is reflected in the number of years of Ministry experience required for social work graduates to achieve the senior practitioner designation. Successful candidates for social work positions in the Ministry who do not have a social work degree must complete four years of experience and training within the Ministry; those with a Bachelor of Social Work require three years of experience and those with a Master of Social Work may reach the senior practitioner level in two years.*

*The Auditor General recognized the importance of the probationary period and noted that district supervisors identified a need for more training in probationary assessment. While this training has formed a significant part of supervisor training, the*

*Ministry will undertake a review of this component of its Personnel and Labour Relations training module for supervisors, to identify ways to strengthen district supervisors' skills and confidence in assessing probationary performance. In view of the limited basis for the Auditor General's observations in this area, the Ministry needs to assess whether more technical training is required or whether other means to increase supervisors' confidence in this complex labour relations area are required.*

*The Ministry has recognized the need to increase the time available for supervisors to provide professional supervision and consultation with social workers under their direction. To achieve this, the Ministry significantly increased the number of supervisory positions as part of the 1988 Ministry reorganization, reducing the ratio of supervisor to line social workers. This has resulted in improved practice supervision, support, and on-the-job training. The Ministry concurs with the Auditor General that the quality of supervision is key to the achievement of Ministry goals, and will continue to review supervisory training and support services to ensure they are effective.*

### *Strengthening the Professional Basis of Service Delivery*

*The Ministry continues to focus on increasing the number of social workers with professional social work training, and supporting social work staff in continuing to develop their professional skills. In this regard, the Ministry has strengthened its links with professional educational institutions and associations.*

*In September, 1991, the Ministry and the British Columbia Association of Social Workers initiated a human resource planning and development task group, comprised of representatives from the Ministry and the Association, and: other ministries employing social workers, the schools of social work, provincial colleges with social service courses, the Board of Registration under the Social Worker Act, private sector social service providers and multicultural groups. The task group will provide a forum to exchange information, identify and discuss issues of professional concern, coordinate planning and policy development, and undertake joint initiatives. The task group will also improve the Ministry's ability to project longer term province-wide demand for, and supply of, social workers.*

*The Ministry has, over the past several years, worked cooperatively with the schools of social work at the University of British Columbia and the University of Victoria to: increase the number of graduates, establish Family and Children's Services' content in their curriculums, and provide support to social work staff to upgrade their academic training to the Bachelor or Master of Social Work level. The Ministry will continue its positive relationship and support of the social work program at both universities and provide practicum placements for social work students who go on to work in many agencies employing professional social workers. The Ministry is also supporting the University of Victoria in the development of the First Nations Bachelor of Social Work program.*

### *Improving Social Workers' Working Environment*

*The Auditor General has noted staff concerns with respect to workload and working conditions and recommends that the Ministry do more to address the concerns of social work staff.*

*The Ministry has had, for several years, a Social Worker Workload Committee with representatives of all classifications. The Committee's role includes developing a means to assess the job demands of social work positions in the Ministry, and recommending the equitable allocation of*

*staff resources approved through the legislative estimates process. This committee acted as a steering committee for a major social worker time allocation study, and for the development of a social worker staffing and workload report.*

*In each of the past four years the Ministry has been allocated additional professional staff resources. In the current fiscal year an additional seventy-two social work positions were added. The additional resources made available to district offices have assisted supervisors and staff to meet client needs and have provided resources to support established staff training plans.*

*The Ministry recognizes that it must continually review the human resources available to provide client services, particularly as social workers feel that their workload, specifically the administrative component, needs to be reduced. The Ministry has initiated a thorough administrative review to ensure that administrative policies and procedures are efficient, effective, and support good social work practice. In this respect, senior Ministry officials have been charged with the responsibility to consult with social workers throughout the province to obtain social workers' views on how administrative requirements could be improved.*

*The nature of the work performed by Ministry social workers is demanding. These demands, and the resultant stress are of concern to the Ministry of Social Services and to all agencies employing child welfare professionals. The Auditor General noted that a substantial proportion of Ministry social workers experience job-related stress. The Ministry is concerned about the stress experienced by its staff and will continue to identify ways to address the concerns of its professional staff about their workload and working conditions.*

## LOOKING AHEAD

*The audit report offers a number of suggestions for improving Ministry recruitment and selection processes and providing additional support and recognition for social work staff. The Ministry is carefully considering these suggestions, in addition to current Ministry plans.*

*The Ministry considers its professional staff its most valuable resource, and recognizes the critical role that social workers play in providing high quality social services to the public. The Ministry will continue to place a high priority on the continual development of professional resource management processes to support its social workers and fulfil the Ministry's mandate and commitment to professional services to clients.*

# MINISTRY OF FORESTS

## INTRODUCTION

In the 1991 Annual Report of the Auditor General (pp. 41-77), we presented the results of three value-for-money audits we carried out in the Ministry of Forests in 1990. Those audits had a common theme: how the ministry monitors the activities of forest companies in Crown forests. Specifically, we examined how the ministry ensures that these companies meet their obligations when they build roads, harvest trees, and reforest areas after harvesting. We selected those audits because monitoring is an important aspect of the ministry's stewardship role.

### 1991 AUDIT

This year we report on the sole value-for-money audit we carried out in 1991 in the Ministry of Forests. It concludes our review of the ministry which we began in 1990.

The Ministry of Forests is the steward of the province's most important natural resource. As steward of the province's forest resource, the ministry has a responsibility to represent the interests of the Crown on behalf of the people of British Columbia. About 85% of the province's total area is designated as provincial forests. Provincial forests have a significant impact on the provincial economy. Managing, protecting and conserving them is vital to the long-term interests of the province.

The *Ministry of Forests Act* gives the ministry the responsibility to manage, protect and conserve the forest and range resources. This is the stewardship role that the ministry is expected to fulfill on behalf of the public. In reviewing the potential audits that we could carry out to close our review in the Ministry of Forests, we considered what was of importance to the public's ability to understand the ministry's performance of its stewardship function.

We noted that in recent years public concern has been expressed about the ministry's ability to fulfill its stewardship role. Questions have been raised about whether the ministry has sufficient resources available to carry out its responsibilities adequately and whether sufficient information is available for the public to make judgments about how the ministry carries out their role.

In our value-for-money audit this year, we examined the ministry's processes for identifying its human resource needs and for allocating its available staff resources. The audit included a review of the adequacy of information about staff utilization and achievement of objectives.

We believe these issues are fundamental to the ministry's capacity to fulfill its stewardship role.

## MINISTRY OF FORESTS

# HUMAN RESOURCE NEEDS AND ALLOCATION

*A review of how the ministry determines its human resource needs, and allocates its available human resources to ministry field operations*

## AUDIT PURPOSE AND SCOPE

We conducted this audit to assess whether the ministry uses appropriate processes for identifying the human resources it needs to achieve its objectives, and for allocating the human resources it receives in a manner that enables it to meet its objectives and priorities.

Our review of the ministry's process for determining its overall human resource needs considered the whole ministry; our review of its process for allocating human resources focused on the Operations Division and the distribution of field staff to the ministry's regions and districts. We examined mainly the ministry's silviculture, timber harvesting, and fire protection programs.

Our review concentrated on the processes used during the fiscal year ending March 31, 1992. We excluded any review of the ministry's overall budget process, general personnel management practices, and methods of managing contracted services.

We carried out the audit between September 1991 and January 1992. Our examination was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

## OVERALL CONCLUSION

We concluded that the ministry does not use an appropriate process for identifying the human resources it needs to achieve its objectives. As a result, it does not know its total human resource needs. Some needs assessments have been carried out, but these were not ministry-wide and did not always produce reliable results.

As well, the processes used to allocate human resources to the field do not provide management with reasonable assurance that staff are distributed in such a way that the ministry can deliver its programs efficiently and effectively. However, some efforts to improve the level of

assurance have been initiated for specific areas.

We believe that both the needs determination and allocation processes would benefit if the ministry had better information to use in its decision-making. The ministry should know more about the extent to which its objectives are met and how staff are used in attaining those achievements. While some of this information is available, we believe there is room for considerable improvement.

## Human Resources in the Ministry

About 85% of British Columbia's total area is designated as provincial forests. Provincial forests are managed for all resource values and have a significant impact on the provincial economy. Although the provincial forest lands are owned by the Crown, the majority of the activity in the forests is carried out by forest companies. The Ministry of Forests is responsible for managing, protecting and conserving this provincial resource on behalf of the people of British Columbia.

In its most recent annual report, the ministry's mission description states that it "manages and protects the forest and range resources of the province for the optimum balance of economic, social and environmental benefits to all British Columbians, now and in the future." To achieve this mission the ministry delivers a wide range of programs throughout the province. Its major programs are timber harvesting, silviculture, and fire protection. Within the harvesting program, the goal of the ministry is to make timber available to the forest industry, consistent with approved rates of harvest and in a way that fulfills the ministry's mandate. Under the silviculture program the ministry is responsible for restocking denuded forest lands and improving the value and productivity of forest stands. This responsibility is shared with industry. The purpose of the protection program is to protect life, property, and the province's forest and range resources from wildfire. This program includes fire suppression, preparedness, and prevention.

The ministry has faced significant challenges during the last 13 years. In 1978, three new pieces of legislation were enacted: the *Ministry of Forests Act*, a revised *Forest Act*, and a new *Range Act*. These Acts significantly increased the ministry's responsibilities and resulted in extensive changes in its operations. The new responsibilities included requirements for integrated forest management, greater consultation with other agencies and the general public, and a periodic analysis and yearly update of information on forest resources. At that time, ministry operations were decentralized, giving districts substantial authority to make operational decisions.

In 1980, the Small Business Enterprise Program (since renamed the Small Business Forest Enterprise Program) was established to create opportunities for small operators to bid on Crown timber. The demands of the new program required the ministry to allocate significant staff resources to it. Under the program, the ministry acts in the same capacity as a major licensee: it plans, builds roads, reforests harvested areas, and performs other related

functions. The Small Business Forest Enterprise Program is part of the overall timber harvesting program.

During the 1980s, the number of staff employed by the ministry declined and the number of private sector contract staff rose. According to the ministry, in 1980 it employed 4,382 permanent and auxiliary staff and an annual equivalent of 1,600 contract staff (this figure includes all ministry contracts), for a total of almost 6,000 person-years. By 1990, the ministry employed a staff of 3,407 full-time equivalents (FTEs) and an annual equivalent of 5,200 contract staff, for a total of 8,607 person-years. The term FTE is defined as the employment of one person for one full year, or the equivalent.

In the 1991/92 fiscal year the Ministry of Forests was given an increase of 492 FTEs; of these, 379 were for a new initiative called the Forest Renewal Program. Fifty-six of the 492 were to enhance the ministry's harvest inspection capacity. Both of these initiatives are described later in this report.

The ministry delivers its programs through 6 regional and 43 district offices, which all together account for almost 3,000 FTEs (about 74% of the ministry's total FTEs). District offices vary in size from about 20 to just over 100 staff. This collection of regional and district offices is frequently referred to as the "field." Headquarters is in Victoria. It currently includes 17 branches, several of which are responsible for much of the planning and policy direction associated with individual ministry programs (e.g., the Silviculture, Protection, and Timber Harvesting branches). The Operations Division includes the field, plus the Protection Branch, the Timber Harvesting Branch, and the Timber Valuation Branch located at headquarters. A portion of the ministry's organization chart covering the principal areas we reviewed is outlined in Figure 1.6.

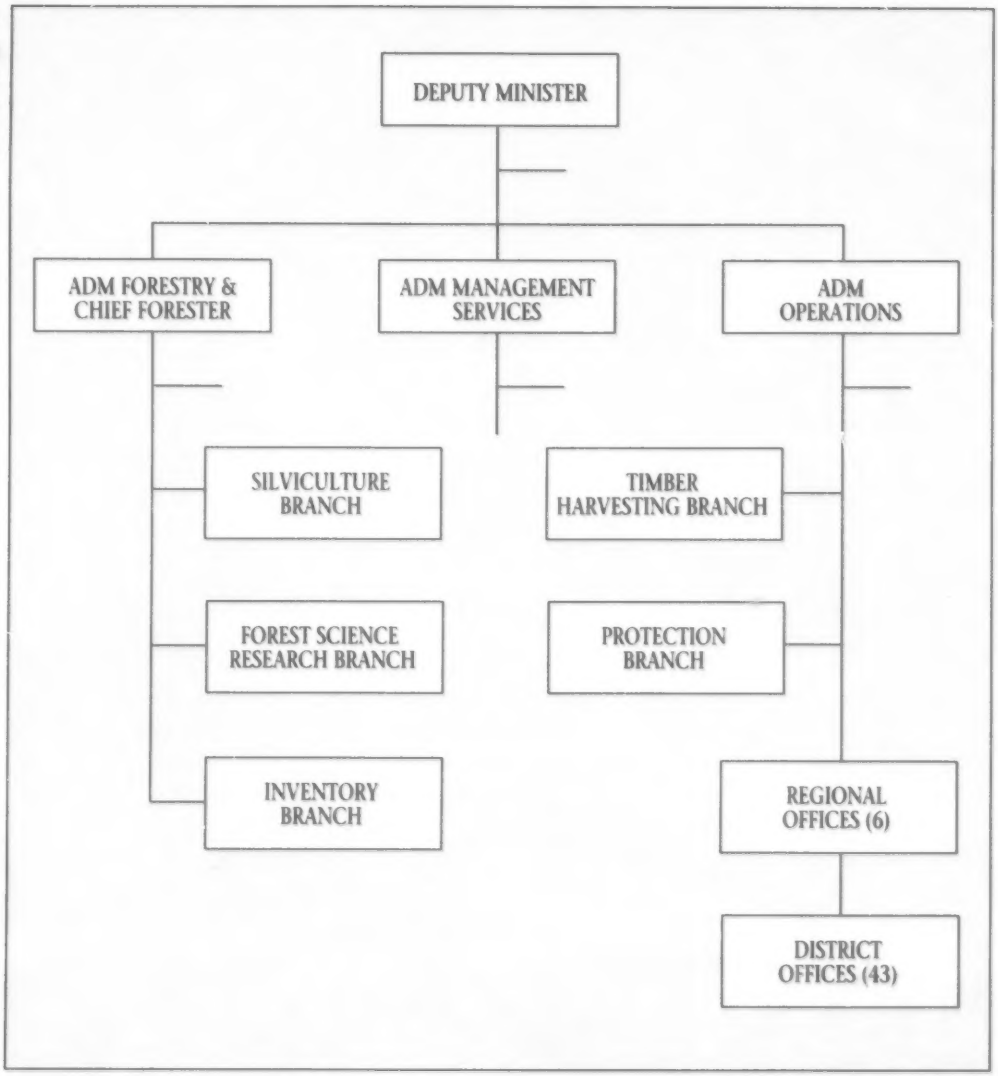
The ministry carries out its mandate using professional foresters, forest technicians, other technical specialists, managers, and administrative support staff. Program delivery and administration are augmented by the use of private sector contractors. For the 1991/92 fiscal year, the ministry staff allocation totaled 3,949 FTEs, making the ministry the third largest in the province in terms of staff size. According to ministry estimates for the year ending March 31, 1992, salaries and benefits will total $180 million, or 34% of the ministry's voted expenditures.

The Ministry of Forests operates within the larger government context and is required to function within the personnel management framework established for government. Under the authority of the *Public Service Act*, for instance, the Minister of Government Services, assisted by the Government Personnel Services Division, issues directives on a broad range of personnel management matters, including recruitment, selection, and appointment of staff; training, development, and health and safety of employees; job evaluation and classification; and rates of compensation. The government's annual Estimates impose a limitation on the human resources that may be employed by a ministry.

Although the framework established by government imposes certain limitations on the latitude available to ministries in dealing with human resource management issues, ministry officials are accountable for ensuring that their ministry is organized and structured to achieve program objectives in the most economic, efficient, and effective manner. Therefore, ministries

**FIGURE 1.6**

Portion of the Ministry Organization Chart




must ensure that they know what resources are required to accomplish their program objectives, and that they use the resources they have in the best way.

In this report, we first examine how the ministry determines its overall human resource needs, and then how the ministry allocates the available human resources to its field operations. These two topics are covered in separate sections of the report.

## Determining Overall Human Resource Needs

In the first half of our report we examine the ministry's process for defining its human resource requirements. We start by looking at how clearly it sets its overall goals and objectives and then review the way it identifies its total workload. Finally, we look at how it calculates its FTE requirements, by reviewing both appropriate methods and a few examples of the ministry's recent efforts in some

*Courtesy of Ministry of Forests/Forestry Canada*

of its regions and programs. We also examine how the ministry determined the human resource needs of the Forest Renewal Program, a recent initiative that expanded the silviculture, research, inventory, and management services programs.

We concluded that the ministry does not use an appropriate process for identifying the human resources it requires to achieve its objectives. As a result, it does not know its total human resource needs. Some needs assessments have been carried out, but these were limited and did not always produce reliable results.

Ministry managers indicated that the government had made no request over the past few years for information about the ministry's overall human resource requirements. Until the 1991/92 fiscal year when the ministry received an additional 492 FTEs, most of the more recent requests for additional human resources were rejected. Ministry managers told us they doubted that any effort to define overall ministry needs would change the situation.

In a ministry with nearly 4,000 FTEs, however, understanding the overall human resource requirements is important to ensuring the efficient and effective delivery of the ministry programs. The need for such information is recognized in the ministry's human resource planning policy. As well, section 8 of the *Ministry of Forests Act* directs the ministry to submit proposals annually to Cabinet, covering the work that it wants to carry out, together with alternatives and recommendations about the priorities that it should adopt. To meet this requirement adequately, we believe the ministry would have to identify its overall human resource needs. The last submission to Cabinet under section 8 of the *Ministry of Forests Act* was in 1986.

Determining total human resource needs is difficult in a complex, multi-program organization that is spread across an entire province. A systematic approach to the task is illustrated in Figure 1.7.

## Setting Goals and Objectives

The process of establishing goals and objectives often starts with a mission statement that describes the mandate of the organization. Setting a clear mission is especially important when the organization pursues a mix of goals that are related to a variety of programs.

Section 4 of the *Ministry of Forests Act* describes the ministry's mandate and identifies five somewhat divergent functions for the ministry. Although this makes defining the overall mission and goals for the ministry difficult, a strong sense of mission and clear goals are imperative if the ministry is to provide effective direction to its staff

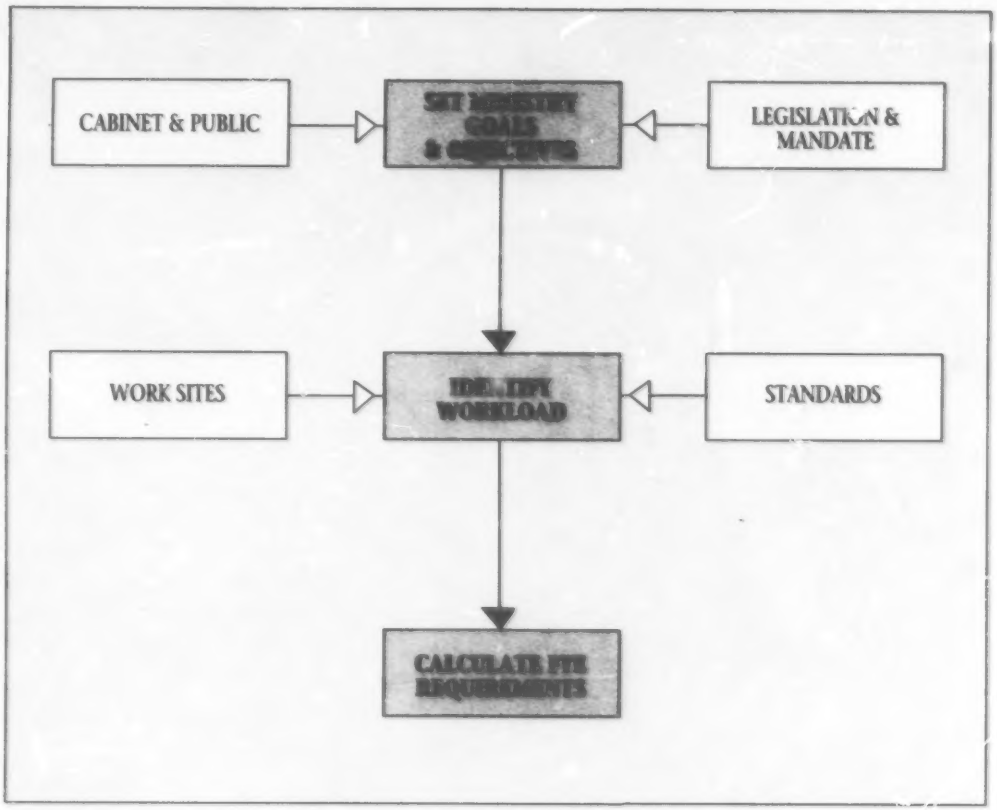



**FIGURE 1.7**

A Systematic Approach to Determining Human Resource Needs

and establish a firm foundation from which to identify its resource needs.

The ministry has documented its mission. However, because different versions of the mission statement appear in different documents, the direction of the ministry is not as clear and precise as it should be. The ministry recently established a Corporate Policy and Planning Branch and assigned it the task of revising the mission statement to reflect the ministry's mandate more clearly.

Program goals are broad statements of intent identifying the result a program is striving to attain. We found that the ministry has identified its goals, including goals for each of the three programs we reviewed. Its program objectives, however, are less clear. Program objectives are the measurable targets that indicate precisely what needs to be accomplished to achieve a program's goals. If they are not clear, the ministry's ability to identify the proper workload and resulting staff needs is hampered. Only silviculture and the small business portion of the timber harvesting program have adequately documented objectives. The ministry has recognized the need for clearer program objectives in both the protection and timber harvesting programs.

## IDENTIFYING THE WORKLOAD

After the ministry has clearly identified its goals and objectives, it should then define the activities that its staff will be required to carry out to meet the objectives. This includes knowing when, how and where these activities are to be completed. To ensure consistent quality, standards related to these activities should be documented to provide a reliable guide for field staff across the province.

We found that each of the three main programs examined had manuals identifying technical and procedural standards. The ministry acknowledged that each program's manuals needed some improvement. It is now revising the standards for timber harvesting and is improving the silviculture and protection manuals.

We feel that the ministry should continue its efforts to complete and update its standards. This will allow it to give clear guidance to the field staff as to what is required for each activity. Clear standards will also help the ministry define its workload more accurately and therefore establish its overall human resource needs with greater precision and confidence.

To determine much of its workload accurately, the ministry must be able to specify its inventory of work sites (e.g., cutblocks requiring ministry activities). The silviculture program has done this. In the timber harvesting and fire protection programs, however, specific work sites are difficult to predict well ahead of time. We found that the ministry is aware of the locations where effort is most likely to be required. The protection program forecasts and plans for its expected workload by district and region, as well as provincially, according to anticipated fire severity. Though timber harvesting staff know which work sites are possible locations for ministry activity (e.g., inspections), the ministry does not attempt to use this information to regularly forecast or estimate its overall workload across the province.

## Calculating Human Resource Requirements

The last step the ministry should undertake in determining human resource needs is to calculate the FTE requirements from projected workloads. In this section we examine how it has been calculating its staff needs for some of its programs and locations, and review its efforts to develop a suitable process for calculating the human resource requirements for its new Forest Renewal Program.

There are several ways to calculate staff needs from identified workloads. One is to establish work or productivity measures that reflect the estimated number of person-hours or person-days required to complete the activity in question (e.g., harvest inspections). These measures could then be used to translate workload into human resources.

Another method is to use ratios such as the amount of administrative support that is required to facilitate a number of contracts of a particular type (e.g., FTEs per million dollars worth of contracts). Still another approach is to rely on informed management judgment to determine the staff requirements, particularly where defining distinct units of production or output is difficult, such as for research or policy development. The ministry has been using all these approaches, and we think each has an appropriate place in establishing staff needs in an organization as diverse as the Ministry of Forests.

Although it has not identified its overall human resource needs, the ministry has undertaken some regional and program-based reviews.

*Courtesy of Ministry of Forests/Forestry Canada*

### *Regional and Program Needs*

Only one of the four regions we examined tried to determine the overall staffing needs for all programs in each of its districts. One other region assessed its staff needs, but only for its timber harvesting program.

Neither the protection program nor the timber harvesting program has identified its overall human resource needs. The ministry is, however, now producing a strategic plan for the protection program. We understand that it will ultimately include the identification of the human resources needed to meet all of that program's objectives. Of the programs we reviewed, silviculture alone has identified staff needs. This is discussed below under "The Forest Renewal Program."

The timber harvesting program, on the other hand, has no strategic plan and has not attempted to identify its overall human resource needs. Through an initiative in 1991, it received 56 additional FTEs to carry out more timber harvesting inspections across the province. The need for timber harvesting inspections was determined according to new inspection standards. Our review indicated that the rigor applied to estimating the impact of the new standards varied. Some districts completed a detailed analysis to derive their needs; others used only a simple estimating process. To ensure the staff requirements were accurate, the ministry should have applied a more rigorous process uniformly across the province.

### *The Forest Renewal Program*

The ministry indicated that the processes it used to define human resource requirements for the Forest Renewal Program represented its latest and best efforts at determining staff needs, and the method it might rely on to determine staff needs for other programs in the future. We reviewed the ministry's approach so that we could

determine the adequacy of this process for use with other programs to determine overall ministry needs. We found that the process used requires significant improvement before it can be considered reliable for the ministry to use in the future.

The Forest Renewal Program is a five-year $1.4 billion plan emphasizing the reforestation of harvested areas and development of second-growth forests. The program enhances the silviculture, inventory, research, and management services programs currently in place. Silviculture, inventory, and research each prepared a five-year strategic plan related to their portion of the Forest Renewal Program. These plans included a needs determination for their part of the overall program.

The ministry has identified the staff requirements for the five-year term of the Forest Renewal Program. For the first year of the program (1991/92), the ministry received 379 FTEs. It has estimated that by the end of the fifth year, staffing for the program should reach 607 FTEs. The processes used by the ministry for establishing the needs in the four components of the Forest Renewal Program are described below.

*Silviculture Program*

Although the ministry has developed a five-year strategic plan for the silviculture program, it has not adequately identified the program's overall staff requirements. The plan analyses only those staff needs associated with the increase to the existing silviculture program provided by the Forest Renewal Program. There was no analysis to determine the adequacy of the existing staff to meet the ongoing needs of the basic silviculture program.

The silviculture program relies heavily on the use of contractors in its work. In determining some of the program's staff needs, the ministry developed ratios linking staff to program expenditures (e.g., one FTE /$2 million). A set of ratios was developed and applied across the province. This provided a provincial average but did not reflect specific regional conditions. We believe separate ratios should have been applied to each region, to improve the accuracy of the final requirements. In addition, the use of contractors to carry out work that would otherwise be done by ministry staff (e.g., contract supervision) was not recognized when the ratios were developed. As a result, the calculations did not accurately reflect the quantity of human resources required to handle the extra work in the districts. We believe that the use of ratios represented a reasonable approach to estimating human resource needs, but the workload overall was not converted into the number of staff required with sufficient precision.

The Forest Renewal Program also provided audit foresters (50 new positions) for the ministry's silviculture audit program. These auditors were to review the silviculture being carried out by major licensees and by the ministry under the Small Business Forest Enterprise Program. The amount of staff time required to complete the projected number of audits was estimated largely from limited experience in one region. This estimate was not sensitive to regional differences. Consequently, it resulted in an inaccurate conversion of the provincial workload into the number of auditors needed to meet the goals identified for them. The ministry is now refining its information so that it can more accurately determine these staff needs. The approach taken relied on productivity measures, and we believe that this was an appropriate method for

### Use of Contractors Versus Ministry Staff (FTEs)

The ministry uses contractors as well as ministry staff to deliver its programs. Ministry estimates indicate that by the 1990/91 fiscal year, its number of person-years acquired from contractors exceeded its number of FTEs.

A mix of contractors and ministry staff can be an efficient and economical way to carry out ministry programs. The ministry advised us, however, that the use of contractors was driven primarily by the lack of available alternatives rather than by selection of the best program delivery method. The ministry recognizes that using contractors can sometimes cost it more than using ministry staff.

A start has been made on replacing contractors where the ministry believes they are inappropriate for reasons such as control or cost. Extra staff were provided through the Forest Renewal Program in fiscal year 1991/92, to replace "implementation contractors," those who supervise the work of other ministry contractors. The use of implementation contractors was reducing the control the ministry had over the quality of field work. Furthermore, the ministry estimated that using the contractors was less efficient, as well as more costly, than using ministry staff. In assessing their replacement with 98 new staff as part of the silviculture FTEs in the Forest Renewal Program, the ministry estimated that it would save $13 million over five years. We did not try to validate these conclusions.

The research program has also identified a need to replace contractors. Of the 56 staff it obtained in fiscal year 1991/92, a number were intended as contractor replacements. While no cost savings were projected from this, other benefits were identified. These included retention of the expertise and knowledge that the ministry's own research staff would accumulate, and a reduction in the effort needed to administer contracts.

calculating human resource requirements.

The strategic plan published for silviculture did not increase staff for the Silviculture Branch at headquarters. It was later determined that a number of staff were needed at the branch to augment certain features of the program, but this oversight was not identified early enough to be included in the ministry's budget request. The ministry had not adequately defined the entire workload for the silviculture portion of the program.

*Inventory Program*

In the inventory portion of the Forest Renewal Program (62 new positions), staff needs were based primarily on the ministry's desire to establish a uniform staff complement in each regional and district office. The ministry knew that the desired staff complement already existed at some district offices, but it requested staff for them anyway. The rationale was that every location needed more staff, and that if an office already had the desired complement for the inventory program, it had obtained this by taking the resources from other programs. Requesting the full staff complement for every office was seen as

an opportunity to restore the balance between inventory and these other programs. Workload was not the main factor in identifying staff needs, and we believe that workload should have been considered to a greater extent in identifying staff needs.

*Research Program*

In the case of the research program's portion of the Forest Renewal Program (56 new positions), the ministry determined its needs primarily by using informed management judgment. Regional proposals were solicited and issues worthy of research identified. Using their experience in carrying out research projects, managers identified the human resources needed to address the issues they wanted to have researched. We believe this was a reasonable way for the ministry to determine these staff requirements, because of the difficulty involved in accurately defining productivity measures for scientific research.

*Management Services Program*

Unlike the three other program components, the management services portion of the Forest Renewal Program did not have a strategic plan. This component was initially overlooked and only considered after the plans for the other three program components had been completed. The same depth of analysis or justification used to support the need for most field staff was not evident in the case of management services staff. Some attempt had been made to gather information from regions and headquarters branches, but the time available to do so was limited. The final number settled on for management services (79 new positions) represented management's estimate of what was required. However, management felt that the process could have been handled better had it been started sooner. We agree, and believe that a more comprehensive approach should have been used.

Overall, we found that the process used to determine the Forest Renewal Program's total human resource needs requires significant improvement before it can be considered reliable for the ministry to use in future. If the ministry continues to refine its methods for identifying workloads and translating those workloads into human resource needs, the approaches used for this program may evolve into a useful process for future application.

The problems the ministry experienced in calculating its human resource requirements, in most of the examples we noted above, stem from a lack of adequate information. Without objective information the ministry must rely heavily on personal judgments. Personal judgments, even if well informed, may lack the

*Courtesy of Ministry of Forests/Forestry Canada*

comprehensiveness, consistency, and precision demanded by an exercise as important as determining human resource needs. Furthermore, we believe that for many of the key activities with defined units of output (such as inspections), the ministry would achieve better results using productivity measures to determine human resource needs.

## Allocation of Human Resources in the Field

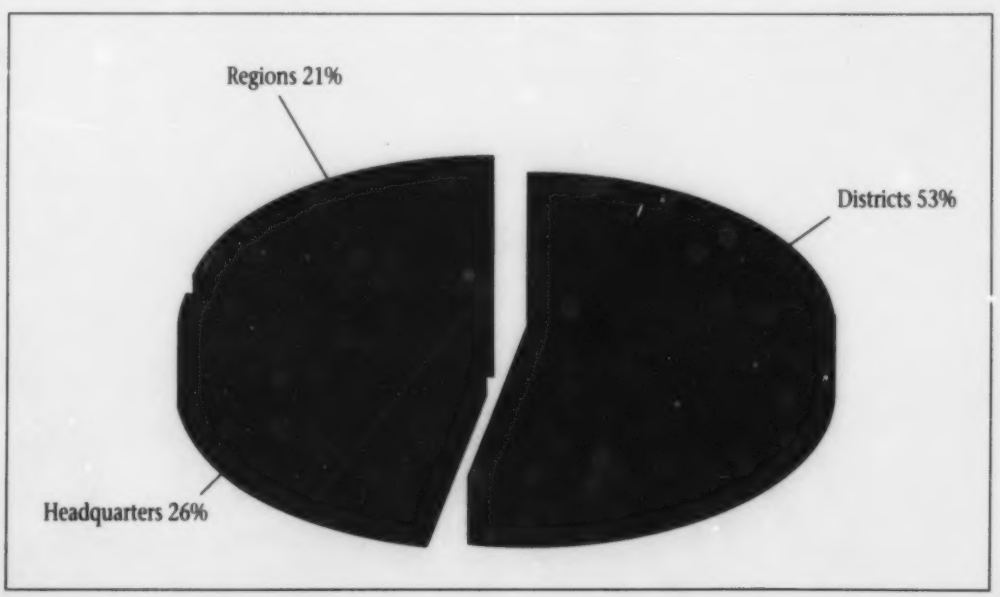
In the second half of this report we examine the ministry's process for allocating available human resources among field offices (regions and districts) to deliver its programs efficiently and effectively across the province. We start by examining how the ministry sets priorities and operational objectives, then we look at the availability of reliable information about program achievements and the staff time consumed in meeting those achievements. Finally, we explore what the ministry has done recently to reallocate existing staff and to allocate the new staff provided under two recent initiatives.

An efficient, effective allocation approach should be founded on many of the same features already described for determining overall human resource needs. These features include clear ministry goals and objectives, sound standards, and a good understanding of the nature of the workload facing the ministry at each field location.

We concluded that the processes used to allocate human resources to the field do not give management reasonable assurance that staff are distributed in such a way that the ministry can deliver its programs efficiently and effectively. However, some efforts to improve the level of assurance have been initiated for specific areas. The missing element in the ministry's efforts to allocate its human resources is basic information about the degree to which operational objectives are met, and about the time spent by staff in achieving those objectives. We believe that if the ministry does not provide clear direction and set formal targets or operational objectives for field operations, and if it

**FIGURE 1.8**

Allocation of FTES 1991/92 Fiscal Year



does not report on the achievements of those objectives, there can be no meaningful assessment of performance at year end.

Government policy requires that each ministry allocate its human resources so that it can meet its objectives efficiently and effectively. Given that about 74% of the Ministry of Forests' staff are located in regional and district offices, the ministry needs a reliable process for allocating human resources among its field operations. Figure 1.8 shows the allocation of FTEs across the ministry.

The ministry itself has recognized the need for an effective allocation process. In its response to last year's value-for-money audits of the monitoring of silviculture, roads, and harvesting activities, the ministry wrote the following:

> *As noted in the Report, the human resources available to meet the Ministry's mandate have been substantially reduced—almost 40%—from the levels of ten years ago. During this same period new Ministry programs have been added, public awareness and expectations have grown, and management of the forest resources has become much more complex. As a result, the Ministry has had to re-evaluate how it should best allocate its limited human resources to minimize the overall risks associated with the management of the Province's forest resource.*

## The Need for Clear Direction

We found that the ministry has not documented either its overall priorities or individual program priorities, and is not generally establishing formal operational objectives at the field level.

Without ministry priorities, field offices generally do not try to document their overall priorities. However, we did find that two of the four regions we examined were developing a comprehensive set of individual program priorities. One region approached this by breaking down all program activities into four priority levels; the other region distributed its program activities among three levels. We believe that all regions should define their priorities, and that they should define them in a consistent way.

Even though priorities were not well documented, management believed they were widely understood by the staff. In the region that established four priority levels, however, management found this was not true. Staff in that region spent significant effort trying to reach a consensus about the appropriate priorities.

We believe the general absence of formal ministry priorities hampers the ability of field staff to make allocation decisions that consistently reflect the best response to ministry needs.

We found that the ministry is not generally establishing formal operational objectives at the field level. By operational objectives, we mean practical attainable objectives that cover program activities at the delivery level of the organization. Operational objectives might reflect a specific output (e.g., inspecting planting on 10 cutblocks), or a percentage of the official standard to be achieved (e.g., 80% of the specified inspections for timber harvesting activities). These operational objectives need to be founded on the higher-level, overall ministry goals and objectives, as well as on overall ministry priorities.

We found one region that was developing a model for establishing operational objectives to direct its regional program activities. These objectives were identified as the expected percent of provincial standards to be delivered. We believe this

represented a reasonable attempt to establish operational objectives that reflected local priorities. However, the dependability of the results of this process could have been substantially improved if the process had formal ministry-wide priorities to serve as its foundation.

We believe ministry field operations need to set formal operational objectives that are achievable by the available staff and consistent with overall ministry objectives and priorities.

## The Need for Information

It is important to have reliable information on the achievement of operational objectives and the staff resources used in attaining those achievements at each field location, so that appropriate allocation decisions can be made.

We found that ministry managers did not have sufficient information about local performance to use in their allocation decisions. Regular reporting focuses on financial matters for all programs and on the achievement of key program objectives for silviculture and the small business portion of the timber harvesting program. It does not address the staff resources consumed in attaining those achievements. In the absence of regular reports on the achievement of operational objectives and associated staff utilization, the ministry's field management relies heavily on staff meetings to stay current with the status of district work. We found that ministry management did not have sufficient, routinely available information with which it could distinguish the relative productivity and efficiency of one district from another.

A forest tenure administration system is currently being developed by the ministry to provide detailed records of the field work undertaken in the timber harvesting program. This could provide useful information on some ministry activities and outputs. We understand that if this system is successful, the ministry may extend the concept to the rest of its programs. At the time of our audit, the system was just being introduced.

All programs report quarterly on budget consumption, although this quarterly reporting becomes monthly in the latter half of each fiscal year. The silviculture program and the small business part of the timber harvesting program also report quarterly on the achievement of their key objectives. During fire season the protection program reports daily on its fire suppression activities.

The tracking of staff time is important because it is the most accurate way of determining the actual effort devoted to individual programs. We found that only three of the nine districts we examined were tracking the time forest technicians spent among the various programs. It is not uncommon for a forest technician to complete work related to two or three programs in one day, which might involve several different types of activities. For example, a technician might inspect a silviculture planting contract, examine the cleanliness of a recreation site, investigate the state of fencing in a range area, and check for fire hazards at a logging operation. Management should have a system that provides it with accurate, objective information about where staff spend their time.

Fire suppression work relies heavily on the use of technicians from the other ministry programs (primarily timber harvesting and silviculture) during fire season, mid-May to September. This typically results in considerable overtime and additional time off for

forest technicians carrying out suppression activities. The overtime generated by the suppression activities is tracked and paid out of the suppression vote. The regular staff time devoted to suppression is not routinely tracked.

We found that program management at headquarters did not have accurate information about the actual staff time consumed by the programs. They knew the number of FTEs *allocated* to their programs, but generally had no clear idea of the productive time really *used* by their programs across the ministry.

We believe that the ministry needs to develop a method for regularly obtaining reliable information on the achievement of operational objectives and staff use. The ministry should then use this information to verify the appropriateness of its allocation strategy.

### Staffing and Accounting for Fire Suppression

Each year, the ministry is very active in fire suppression. In addition to using contractors and short-term employees, it relies heavily on the temporary use of staff from other program areas such as silviculture or timber harvesting for fire suppression duties. The total extent to which these other program staff are used for fire suppression depends on the severity of the fire season. This is not routinely tracked and measured, although the ministry periodically requests information from the field on the use of such staff. Recent information indicated that staff time equalling 176 FTEs was obtained from other programs during 1990, a severe year for forest fires.

Ministry program managers recognize and accept that these interruptions will occur during the fire season and that staff resources will be lost in regular programs. However, we noted that the programs involved are not reimbursed for these losses. The salary costs for these staff, which we estimate to be $6 million for the 1990 fire season, continue to be charged to their regular programs rather than to the suppression vote. Only the overtime costs incurred by these staff are charged to the suppression vote. The Ministry of Forests has advised us that some staff specifically hired for fire fighting are used as time permits to perform work on other programs. The ministry believes that some of the $6 million charge noted above would be offset as a result of this practice. At the time of our review, the ministry had not determined the extent of this offset.

This practice has three major impacts:

First, ministry managers across the province are not able to use the full monies appropriated by the Legislative Assembly for the Ministry Operations vote.

Second, this practice appears to contravene the *Financial Administration Act*, which requires that monies appropriated for a vote be applied only for purposes described in that vote. This is not happening with a portion of the salaries of the staff who are temporarily assigned to suppression activities.

Third, the Legislative Assembly is not provided with a proper accounting of the costs of fire suppression or of the costs of those programs that provide staff for suppression activities. For the 1990/91 fiscal year, direct fire fighting costs were reported to be $60.2 million. The actual costs are higher.

## Allocation Practices

In this section we examine how the ministry has reallocated existing staff among its field offices to address imbalances in its local workloads. We then look at how the ministry has handled the allocation of some of the new staff it received under the Forest Renewal Program and the enhancement of the timber harvesting inspection activity.

Overall, we found that the processes used to allocate human resources to the field are not providing management with reasonable assurance that staff are distributed so the ministry can deliver its programs efficiently and effectively. However, some individual efforts to improve the level of assurance have been initiated for specific areas.

In the case of existing staff, we found that the ministry is reviewing the roles and responsibilities of headquarters, regional, and district staff in the inventory program. We also noted that one region used a model to calculate relative workloads and then reallocated existing staff according to the results of its analysis.

In the case of new staff, workload was not the main factor in determining how the human resources should be allocated among districts and regions. Many new staff were simply allocated equally among field offices. As a result, human resources may not have been distributed for greatest efficiency and effectiveness.

### *Allocation of Existing Staff*

We found that managers had no assurance that the staff allocations among headquarters, the regions, and districts were appropriate. Most managers recognized that an examination of the distribution would be beneficial. The ministry recently hired a consultant to look at the inventory program and trace the flow of work and responsibilities from the field level at district offices all the way to headquarters. This review is aimed at ensuring that areas of duplication or redundancy are identified and appropriate action recommended. When this review is complete, the ministry may better understand how the inventory program's staff resources are balanced among headquarters, regions, and districts. However, a number of allocation questions will still remain, such as the appropriateness of the balance between line and staff positions, as well as among professional, technical, managerial, and support staff.

The latest ministry-wide attempt to review total field allocations was completed in 1987. While the ministry has not carried out any recent broad studies covering the allocation of human resources in the field, one of the four regions we examined did conduct its own review. In 1990, this region examined the allocation among its districts by using a version of the ministry's 1987 workload review process, modified to reflect local conditions. The results showed regional management that resources were not allocated equitably in relation to the identified workload. As a consequence, eight FTEs were transferred from one of the larger districts to other districts within the region. This suggests there may be opportunities in other regions to reallocate staff more in line with identified workloads.

### *Allocation of New Staff*

We found that the allocation of new silviculture and timber harvesting staff to field offices was not consistently done on the basis of workload demands.

The new silviculture staff allocations originally devised for the regions under the Forest Renewal Program were

developed by headquarters staff. Staff in several regions felt that the allocations earmarked for various regions were inappropriate and that, in particular, the allocation for the Silviculture Branch lacked proper foundation. As a result, the ministry established a committee of headquarters staff and regional representatives to review the proposed allocations. This resulted in considerable change to the original schedule and in the hiring of consultants to review the entire allocation process. The consultants will review the allocations that would have been made under several different proposed distribution models, examine the results, and recommend to the ministry the best model for making future allocation decisions. The report had not been completed at the time of our review.

Silviculture staff were distributed to the field in different ways. As directed by headquarters, one silviculture auditor was allocated to each district in the province. Some districts therefore obtained a full-time auditor even though, based on ministry information, the anticipated workload did not warrant it. In other districts, the projected workload exceeded the capacity of a single individual. One auditor was also provided for each regional office, though the projected audit workload required substantially less than a full-time auditor in any of the six offices.

Additional staff were also provided for other silviculture activities in the field. For these staff, three of the four regions we examined allocated staff according to projected workloads. In the fourth region, they were primarily distributed equally to districts, with workloads becoming only a secondary consideration in allocating the small balance remaining of the regional allowance of FTEs.

In addition to the silviculture staff, 56 new FTEs were allocated to the ministry for harvesting inspections. We found that one FTE was simply given to each district in three of the four regions we examined, though district workloads can vary significantly. Once one FTE had been assigned to each district, the small remaining balance was allocated on the basis of estimated workloads. The rationale for this approach was that every district was understaffed and required help. As is the case for silviculture, this approach means the allocation of these extra resources only partially considered actual workloads.

## Looking Ahead

We believe that the ministry needs to improve its ability to accurately determine its total staff needs and to allocate staff for the efficient and effective delivery of programs. To enhance accuracy, the ministry should develop specific objectives for all programs, complete its efforts to establish appropriate standards for its activities, and improve its methods for calculating the number of required human resources from workload data. To improve its allocation decisions, the ministry needs to collect better information about what each field office achieves and how staff are used.

Through these efforts, we believe the ministry would be able to improve its allocation decisions, obtain better use of its staff, and provide better accountability to the Legislative Assembly.

*The Ministry of Forests believes that value-for-money audits can be a valuable tool to help government managers improve the quality of services to the public and to minimize the cost of providing these services. We have implemented many of the recommendations contained in previous reports of the Auditor General. As an example, the Ministry is actively implementing recommendations from last year's value-for-money audit of licensee monitoring.*

*However, in this year's report by the Office of the Auditor General on human resource needs and allocation within the Ministry of Forests, there is little justification for the conclusions reached and the suggested corrective actions that the Ministry should take.*

*The report contains an assessment of how we identify our human resource needs and allocate staff to Ministry programs. The Office of the Auditor General has criticized our methods based on a comparison with inappropriate theoretical methods.*

*As we explained to the Office of the Auditor General during the audit, these theoretical methods cannot be practically applied in the environment in which we operate. As the Auditor General noted in his report, determining our human resource needs is difficult in a complex, multi-program organization which operates across the province.*

*Staffing required to carry out many Ministry activities can vary significantly from year-to-year due to climatic, social, and economic factors. For example, during a particularly wet year, fewer staff may be required for fire suppression. Similarly, if the demand for forest products increases, companies will harvest their full allotment and more staff will be required to monitor harvesting.*

*As a result, our managers require methods that provide enough flexibility to assign staff based on their best judgment of expected work load and relevant factors.*

*The need to use judgment is increased by the fact that, as the Auditor General notes in both this and last year's audit reports, the Ministry's staff levels have been reduced by almost 40% over the past ten years.*

*We are also concerned that the costs and benefits of the suggestions outlined by the Auditor General have not been assessed. Many of the changes, such as more frequent, Ministry-wide analysis of staffing needs, would be expensive and would add to administrative overhead while reducing the time spent by staff in the field. In last year's report, the Auditor General recognized the need for staff to spend more time in the field.*

*In assessing our human resource needs and allocation methods, the Auditor General asserts that because we do not use the theoretical methods that his office favors, we cannot be sure that our programs are efficient and effective.*

*However, in the view of many acknowledged public sector auditors, there should be an examination of the extent to which an organization's goals are achieved, and how programs are delivered, before commenting on the efficiency and effectiveness of programs. There is no indication in the report that the Auditor General has done so.*

*We recognize that appropriate methods for determining human resource needs and assigning personnel will contribute to the effectiveness of program delivery. As a result, we have undertaken a number of major initiatives in this area.*

*Although these initiatives were underway prior to and during the audit, we were disappointed that the Auditor General does*

*not appear to have taken them into account. Such initiatives include:*

- *The Ministry continues to implement program management plans across all its programs. These plans include establishing targets for various activities based on strategic objectives of the Ministry. Staff are being allocated and assigned responsibility for achieving targets. This will provide greater assurance that staff activity is focused towards achieving key Ministry objectives.*
- *A human resource plan is being developed to assist managers in meeting new strategic initiatives in the Ministry. The plan will include staffing and staff development activities to ensure that appropriate resources are in place.*
- *Last year, we introduced a management development program to ensure that staff have the skills needed for their assigned responsibilities.*
- *The Ministry is in the process of implementing a system that will support the management of harvesting tenures. The Ministry plans to install a similar system for silvicultural activities over the coming months. Both systems have the capacity to estimate planned and actual activity at the individual, office, and provincial level, and analyze the reasons for variances. Tenure management and silviculture are the two activities that absorb a significant amount of staff time.*
- *In the silviculture area, we are presently reviewing techniques to assist managers in determining the impact of key climatic, geographical, social and economic factors on resource requirements.*

*We recognize that we should continue to review and change how we identify needs and allocate staff in response to the changing environment in which we operate. We feel that these and other initiatives will help us to achieve this goal.*

We conduct our value-for-money audits in accordance with the value-for-money auditing standards of the Canadian Institute of Chartered Accountants. Those standards include requirements that the audit criteria used be suitable in the circumstances and that sufficient audit evidence be obtained to justify the conclusions reached.

We follow a rigorous audit process which is designed to ensure that we adhere to professional auditing standards. Nevertheless, when the Deputy Minister of Forests expressed certain reservations about this audit, I considered those concerns carefully and thoroughly. Based on my own enquiries and the results of two reviews of the work of my staff, one conducted by my Deputy and the other by a national firm of management consultants, it is my conclusion that this audit has been conducted fully in accordance with professional auditing standards.

# UPDATED RESPONSES TO PRECEDING YEAR'S VALUE-FOR-MONEY AUDITS

The following written comments were received in reply to our invitation to publish further updates from the ministries that were the subject of value-for-money audits last year.

*The 1991 Report of the Office of the Auditor General contained the results of three value-for-money audits of the Ministry of Forests. Each audit focused on the Ministry's monitoring of major licensee activities in:*

- *silviculture;*
- *timber harvesting; and*
- *forest roads construction and maintenance.*

*The Ministry has reviewed the report of the Office of the Auditor General. As noted in its response in the 1991 report, the Ministry generally agreed with the conclusions, but with some significant exceptions.*

*These exceptions reflected the Ministry's concerns that the Auditor General chose to limit their audit to field monitoring only. A more critical activity that was not audited is the monitoring of licensees' planning.*

*Further, the Auditor General did not adequately recognize initiatives to further improve monitoring activities which had commenced prior to the start of the audit.*

*These initiatives are continuing. The Ministry has retained a major international accounting firm to assist in ensuring that these initiatives adequately address the findings and recommendations of the Office of the Auditor General.*

*The Ministry's comments are grouped below under performance standards, monitoring activity and accountability.*

## *PERFORMANCE STANDARDS*

*Revised draft standards have been completed and issued for licensee silviculture activities and road construction. Standards for harvesting were always specified in each cutting authority document and required no revision.*

## *MONITORING ACTIVITY*

*Revision of monitoring policies, procedures and controls for the three program areas audited is complete and are reflected in new sections of Ministry operating manuals. The revised manuals provide a comprehensive framework for planning, conducting, reporting and supervising monitoring activities.*

*The Ministry plans to implement these changes in the spring of 1992. Training courses have been designed and will be held in the near future.*

*Industry sites will continue to be grouped according to a number of risk criteria. Highest risk sites are visited more frequently with all sites subject to at least a specified minimum level of monitoring.*

*In the past year, Treasury Board concurred with the Ministry's need to allocate scarce resources to monitoring. As a result, the Ministry was authorized to staff in each district one position which is dedicated full-time to the monitoring of major licensees' silviculture activities.*

*Treasury Board also authorized the Ministry to fill a further 56 new positions, mainly at the field level. Personnel in these positions will be responsible for performing monitoring of logging operations and associated timber harvesting activities.*

### ACCOUNTABILITY

*Commencing in 1992/93, the Ministry plans to assess the needs of providing additional information in its Annual Report on the extent of and results of monitoring of harvesting, silviculture and road construction.*

### HIGHWAY PLANNING

*The 1991 Auditor General's report concluded its section on Highway Planning with the note that the Ministry needed "to address five areas before its planning and budgeting processes for highways will achieve good value for money".*

*Regarding the need to assess projects in the Freedom to Move plan for engineering, economic, social, environmental and cost completeness and accuracy, the Ministry has developed, in conjunction with the University of British Columbia, a formal Social Cost Benefit methodology, complete with a supporting computer program. This analytic tool allows planners to incorporate a wide range of costs, benefits, impacts and technical data relevant to specific projects. The methodology is currently in its final testing stages, staff training is underway and training and use of the model is being offered to consulting firms that may be providing project feasibility analysis for the Ministry. In addition, a formal prioritization methodology is under development which will allow the inclusion of non-quantifiable components of a project to be included in the final selection/ranking process.*

*Regarding the need to complete technical planning and costing prior to construction, the Ministry agrees with this goal and is actively pursuing it. There is a need to recognize that in some cases direction will be given to proceed with a project regardless of whether it has been fully planned and costed, and that in a large program such as highways, there are many projects already "in the pipeline" without full analysis. We anticipate the number of these to decrease substantially over the next few years.*

*Regarding the need to update the Transportation Plan, the Ministry has returned annually to each of the eight regional committees, requesting a review of the plan and the individual project priorities. This has resulted in a number of relatively minor adjustments. Because of the complexity of transportation in the two major urban areas, the Ministry has entered into agreements with the Capital Regional District and the Greater Vancouver Regional District to jointly undertake the development of comprehensive, multi-modal transportation strategies, policies and guidance on project priorities. These will better define the whole urban need,*

*including that portion under Ministry responsibility.*

*Regarding the Freedom to Move Special Account, fiscal constraints prevented the anticipated funding to be allocated in its first two years, and also precluded its anticipated ability to carry funds over from one fiscal year to the next. It is anticipated that the 1992/93 capital allocation will be a traditional Vote of the Legislature, with no special provisions. The continuing fiscal constraints facing government also required a substantial reduction in the program itself. As well, rearrangement of duties in late 1991 removed both funding and responsibility for overseeing B.C. Ferries and B.C. Transit.*

*Regarding the need for a better understanding of rehabilitation requirements, the Ministry has prepared a three year rehabilitation program, is undertaking an assessment of the seismic risk facing bridges, and is improving its data gathering and analysis relating to pavement and bridge conditions.*

*These represent only the highlights of the planning improvements planned or underway—there are a large number of smaller, but important, steps that have also been taken.*

## PROTECTING ROADS AND BRIDGES

*The Ministry is pleased to be able to update you on the audit that provided an assessment of the Ministry's programs "Protecting Roads and Bridges" for the period of May to October, 1990. Our update in each section is as follows:*

### Maintaining Roads and Bridges

*The report observed that standards for bridge maintenance needed refinement. These were reviewed and improved according to the audit recommendations, and included in the new contracts that have been awarded for each of the 28 contract areas.*

### Protecting at the Least Lifetime Cost

*The report was concerned that the ranking of rehabilitation priorities was based on subjective evaluation of road conditions and not the systematic collection of objective information. The Ministry is continuing to develop a Pavement Management program to provide that objective information and hopes to start its implementation on a staged basis in the upcoming fiscal year.*

### Regulation of Commercial Traffic

*The Ministry of Transportation and Highways is working with the Motor Vehicle Branch of the Ministry of Attorney General to ensure the system of weigh scales and enforcement penalties is appropriate and changes will continue to be made in this area as needed.*

## MONITORING OF MAINTENANCE CONTRACTORS

*The Ministry has continued to improve its monitoring of the performance of maintenance contractors. We have done this through a rationalization of the staffing required to perform inspections. In addition the Ministry also required contractors, as part of the second round of contracting, to produce a comprehensive business plan which forms the basis for an objective review of the contractors' management practices. We believe that this will address the audit's concern for a more objective measurement of the contractors' ability to manage.*

## MINOR CAPITAL CONSTRUCTION AND REHABILITATION PROJECTS

*The Ministry is pleased to report that complete policies and procedures for project management were implemented in the*

*1991/92 fiscal year and that at the present time there is an audit being undertaken to measure their effectiveness. The Ministry has also applied more resources for the project management area to help alleviate the heavy workload that group was encountering during the audit. The Ministry is also developing streamlined administrative procedures in a project information system which should further enhance our ability to deliver and report on projects.*

# PART II
# COMPLIANCE, CONTROL, AND ACCOUNTABILITY AUDITS

# PART II
# COMPLIANCE, CONTROL, AND ACCOUNTABILITY AUDITS

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# COMPLIANCE, CONTROL, AND ACCOUNTABILITY AUDITS

In addition to the value-for-money and financial audits commented on elsewhere in this report, we have undertaken several other specific studies of government operations to assess whether:

- legislative and other authorities have been complied with;
- systems of internal control have been established and are operating to achieve their intended purposes; and
- appropriate means have been developed and employed to provide accountability for government activities.

This part of our Annual Report contains our observations, assessments, and recommendations on the audits of this nature that we carried out during the past year.

Further details on the purpose of these audits, and the processes followed in their conduct, appear in Appendix C of this report.

# BRITISH COLUMBIA YEAR OF MUSIC

*A review of the accountability relationship between the government and the British Columbia Year of Music Society in carrying out the Music '91 project*

## AUDIT PURPOSE AND SCOPE

The provincial government contributed more than $19 million to the British Columbia Year of Music Society for the Music '91 project. Corporate sponsors, ticket sales, and other sources provided an additional $7 million. In total, the Society received and spent almost $26 million over a three-year period.

We conducted our audit to assess whether the government established and maintained an adequate accountability relationship with the British Columbia Year of Music Society, and whether the government has sufficient information to determine if the project has achieved its objectives.

We focused our audit on the accountability relationship between the government and the Society. Our audit did not review how the Society managed its internal administration, marketing, or events production activities; nor did it examine how the Society acquired assets or services. However, we did consider the adequacy of financial controls over revenues, expenditures, assets, and liabilities, and whether those controls operated as designed during the period of the project.

Our audit covered the period from February 1, 1989 (the date of the pre-incorporation meeting of the Society) to December 31, 1991, by which date the project was virtually complete. Our examination was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

## OVERALL CONCLUSION

We concluded that the government did not establish an adequate accountability relationship between itself and the Society. It did not give the Society clear direction or a description of specific objectives for the project and it did not ensure that it received sufficient information to monitor and control the activities of the Society. Because of this, the government could not ensure that the Society met its objectives within the financial constraints initially set by the government.

We also concluded that the information available is insufficient to permit the government to assess the

extent to which the Society achieved its intended objectives, or to determine the effect that Music '91 had on tourism in British Columbia. Efforts to gather such information were handicapped by the government's failure to integrate into its terms of reference a requirement for the evaluation of the project's effectiveness.

We concluded that the Society had an adequate system of financial controls over revenues, expenditures, assets, and liabilities, and that these controls operated as designed during the period of the project.

## Background

### Year of Music Society

The British Columbia Year of Music Society was incorporated in March 1989 under the *Society Act*, following a meeting in February 1989 attended by the Minister of Tourism and Provincial Secretary, several of the ministry's senior officials, and several private citizens.

The constitution of the Society provided that there would be a maximum of 12 members, appointed by the Minister, all of whom would be directors of the Society. The purposes of the Society, as stated in its constitution, were to:

- manage, operate and promote a musical extravaganza for the year 1991 and arts and entertainment festivals . . . including, without limitation, dance, theatre, music, visual arts and drama arts and entertainment festivals; and
- develop, foster and encourage interest and participation in the festivals.

Over the life of the Society several changes were made to the constitution, including increasing the number of members to a maximum of 18 and restating its purposes to:

- present a Province-wide musical extravaganza for the year 1991 and arts and entertainment festivals including, without limitation, dance, theatre, music, visual arts, drama arts, and entertainment festivals;
- promote and generate interest in music and the arts throughout the Province of British Columbia;
- develop, foster and encourage public knowledge and awareness in various types of music and art through the presentation of entertainment festivals in various communities in the Province of British Columbia.

### Evolution of the Project: The Concept and Financial Commitment

In mid-1988, B.C. Pavilion Corporation hired a consultant to prepare a proposal for a project that used band music as a theme to promote tourism. The consultant's report was later presented to the Ministry of Tourism and Provincial Secretary. It outlined a business plan for a province-wide program that could be implemented in 1991 for under $12 million. It was estimated that earned income and corporate support would generate revenue of approximately $4.5 million, leaving the project with a funding requirement of $7.5 million of public money.

In March 1989, the Minister, in a letter inviting individuals to become directors of the British Columbia Year of Music Society, indicated that the project was still in a conceptual stage but would be "based on bands and their music," would "expand the inventory of festivals which lend themselves easily to tourism marketing," and would "enhance the cultural and artistic ecology of the province."

Although tourism was not mentioned as one of the Society's purposes in its incorporation documents, tourism marketing was the focus of the Society from the beginning. At the first meeting of the Society's directors in April 1989, the Minister set out the major goal of the project as being "to produce a province-wide tourism marketing effort, supported by the communities, in making British Columbia the focus of Music in 1991." Subject to this broad direction from the Minister, the Society was to develop the concept of what the Year of Music would be. At a subsequent meeting, "community involvement from all parts of the province" was emphasized as an important element of the project.

At the April 1989 meeting of the Society's directors, the Minister stated that the government had budgeted a maximum of $12 million for the project.

Once it had settled some of its basic administrative needs, including securing initial funding, the Society turned its attention to refining and defining the scope of the project. To do this, it retained consultants to draft a creative concept plan for presentation to the directors.

The consultants produced a concept outline that included provincial tours of various musical genres (opera, folk, jazz, symphony, rock, country and western, etc.), major events (focused in southwest British Columbia), and something described as "regional event partnerships" to provide supplemental talent funding for existing events. The consultants' report defined project

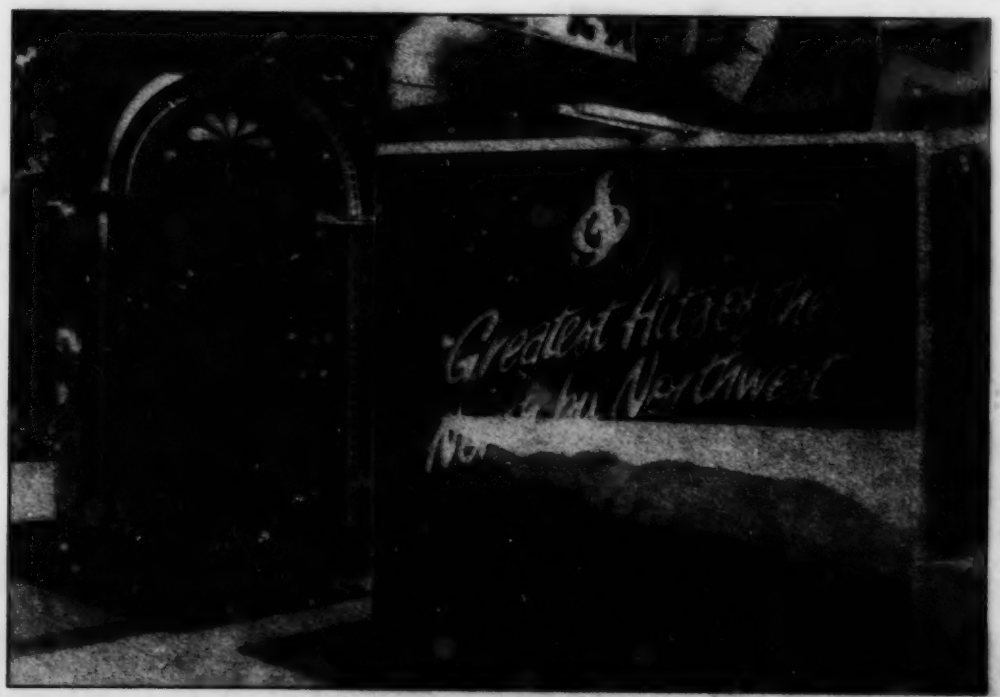


**Table 2.1**

Year of Music Budget Summary ($000)

*Source: British Columbia Year of Music Society*

| | Budgets | | | | | Actual |
|---|---|---|---|---|---|---|
| | Jan/90 | Jun/90 | Sep/90 | Apr/91 | Jun/91 | Jan/92 |
| Revenue | | | | | | |
| Government | 12,000 | 12,000 | 18,000 | 17,000 | 17,000 | 20,200 |
| Sponsorship | 4,610 | 4,775 | 4,500 | 2,900 | 2,800 | 2,655 |
| Ticket Sales | 3,354 | 6,322 | 5,494 | 5,725 | 4,058 | 3,243 |
| Other | 509 | 1,983 | 779 | 727 | 665 | 818 |
| | 20,473 | 25,080 | 28,773 | 26,352 | 24,523 | 26,916 |
| Expenses | 27,126 | 36,796 | 28,746 | 28,175 | 27,694 | 25,726 |
| Excess Revenue (Deficiency) | (6,653) | (11,716) | 27 | (1,823) | (3,171) | 1,190 |

objectives in terms of "tourism marketing, regional impacts, and replicable aspects." The tourism marketing objective was "to build tourism from both within and from outside the Province." The regional impact objective was to ensure that "major aspects of programming . . . take place throughout the Province." The overall objective was "to structure programming so that the overall concept can be replicated and repeated in subsequent years."

In late August 1989, the Society prepared a budget estimate that outlined a $24.6 million project and called for slightly more than $12 million in government funding. The project program included an international tattoo, marching bands, a "homecoming" concert of Canadian talent, and a rock opera.

In November 1989, the Year of Music project was officially introduced at a "launch" where the Premier announced that the government had committed $12 million to the project. Once the Society hired key financial staff, detailed budgeting began. Table 2.1 shows the evolution of the budget from January 1990 to June 1991, plus actual revenues and expenses to the end of January 1992.

The Society's first detailed budget in January 1990 included a government contribution of $12 million, but showed a deficit for the project of $6.6 million. At this time, the Society was still determining what the program elements of the project would be. Meanwhile, Cabinet confirmed funding to the Society of $12 million from lottery funds.

In April 1990, the Premier directed the Society to include a promotional tour in the summer of 1990 as part of its programming. The Society understood that it should spend approximately $1 million on the tour. In response to concerns expressed by board members, the board chairman indicated that it was his understanding that additional government funding would be forthcoming.

In June 1990, the Society completed its first major budget revision. The new

budget showed a government contribution of $12 million and a deficit of $11.7 million. This represented the total cost of all program components then under consideration for the project, including a mall tour, a television program, an extensive corporate identity program, major events, a roadshow, and other events. This forecast was prepared for information purposes only, and was followed immediately by a "scaling down".

By September 1990, the Society had made sufficient program cuts to reduce expenditures by $8 million. The corporate identity program was scaled down, the number of roadshow stops was reduced, the television series was eliminated, and other economy measures were implemented. These cuts were reflected in the second major budget revision, which produced a balanced budget for the first time, based on a government contribution of $18 million. The additional $6 million was to be raised from the Ministry of Tourism, the Lottery Fund, and unnamed Crown corporations.

It was apparent by early 1991, that the original target of $4.6 million revenue from corporate sponsorship would not be met. A $1.5-$2 million shortfall was expected in this area. Representatives of the Society met with the Premier in January and Cabinet in February 1991 to discuss the need for additional funding.

In March 1991, Cabinet approved the additional $5 million of funding for the Society. The budget revision prepared in April 1991 reflected government funding of $17 million and projected a $1.8 million deficit for the project. During the following month, the Society worked at balancing its budget by eliminating some planned events and reducing expenditures for others.

Three months later it was again apparent that a shortfall in corporate sponsorship and ticket revenues would necessitate yet more government funding, and a Treasury Board submission was prepared requesting

those funds. In July, Treasury Board approved an additional $3.2 million. This money was provided from the Contingencies (All Programs) and New Programs Vote.

Financial statements for the Society, prepared for the period up to January 31, 1992, indicate that the Society will have a surplus of approximately $1.2 million. These funds will be returned to the government, and will reduce the government contribution to the Society from $20.2 million to $19 million.

### The Music '91 Program of Events

The Society produced the following program of events:

- Roadshow concerts: performances in 50 communities featuring "name" talent, supplementing established local events.
- Roadshow weekends: 12 major weekend events with local amateur and professional entertainment, supplemented each evening by a major act.
- Community showcase: 535 performances by non-professional entertainers in various communities.
- "Streetstuff": 75 performances in locations throughout the province (parks, ferry terminals, border crossings) by professional street musicians.

The Society was also involved with many other events in 1990 and 1991. These included the Coast Hotels' "Legends of Music" concerts, Labatt's Canada Live performances, and the Juno awards.

## Accountability to the Legislative Assembly

### General Accountability

The government is responsible for making wise use of the money it controls. It is accountable to the Legislative Assembly for its decisions about the use of this money, but assigns responsibility for the management of individual programs and projects to ministries and other organizations. These bodies in turn are accountable to the government and ultimately to the Legislative Assembly for the results of their programs.

The government has several sources for the money it requires to carry out its programs. Most of it comes from the voted appropriations outlined in the annual Estimates. In addition, the government has access to several special accounts which provide statutory authority to spend for specific purposes. Special accounts need not be presented to the Legislative Assembly for approval of spending plans. The description of spending plans for special accounts included in the Estimates is for information only. The Lottery Fund is one of these special accounts.

Grants from lottery funds are not subject to the same administrative controls that apply to the expenditure of most other public money. These grants are made at the discretion of the Minister of Provincial Secretary. The *Lottery Act* provides that money in the Lottery Fund may be paid out on the requisition of the Minister "for cultural or recreational purposes or for preserving the cultural heritage of the Province or for any other purpose the minister considers to be in the public interest." In practice, the Minister acts on the recommendation of a Cabinet

committee for grants exceeding $150,000.

Cabinet approved the $12 million and $5 million grants to the Society. Because of the discretion the Minister of Provincial Secretary has over lottery funds, neither grant was subject to scrutiny by Treasury Board or the Legislative Assembly.

## Accountability Standard for Music '91

Music '91 was a multi-million dollar project delivered through a society controlled by, and accountable to, the government. The government was effectively the owner of the project, and so bore the risk associated with it. As such, it had an obligation to manage and control that risk, and was accountable to the Legislative Assembly for doing so.

The relationship between the Society and the government can be characterized in contractual or quasi-contractual terms. The Society was a supplier of a product or service, in this case a program of musical entertainment intended to create a specific impact on the tourism industry in the province.

The underlying basis of any contractual relationship is that both parties clearly understand what is to be accomplished, how the extent of that accomplishment is to be measured, and which party is responsible for which activities. When these matters have been agreed on, and preferably documented for reference, the parties take the necessary steps to attain the set goals, measure results, assess the success of the project, and report on that success.

In the case of Music '91, we think the government should at least have known, and communicated to the Society, what it hoped to accomplish by the expenditure of $12 million on this project. It should also have had a clear understanding of how it would determine whether the project attained its objectives. And it should have addressed, in planning the project, how it would measure and evaluate the results of the project. The Society was entitled to know what was expected of it, and the government was entitled to know whether it got what it paid for.

We believe the government should have established from the beginning of Music '91 a way to monitor the project's progress. This would have required the Society to report on the planning, budgeting, delivery, and evaluation of each element of the project. The government was entitled to assurance that its money was being spent in a manner that was effective and provided value for money.

## What the Government Hoped to Accomplish

The Society's directors, when appointed, received very little guidance on the government's objectives or expectations. The letter from the Minister, inviting them to join the Society, described the project as being "derive[d] from the notion that it is possible to stage a major event in British Columbia which can celebrate the British Columbia Spirit and capture international attention particularly in the major market to the south."

The government did provide general direction to the Society by having the Minister of Tourism and Provincial Secretary attend the first two Society board meetings. At the inaugural board meeting, the objective of the project was described as being "to produce a province-wide tourism marketing effort." "Community involvement from

all parts of the province" was also emphasized.

The Society was advised by the Minister responsible for its existence that, notwithstanding its stated purposes, its intended purposes were to promote tourism using music as a vehicle and to give the project a province-wide presence. Specifically, the project was intended to "attract tourists from outside the province," "encourage British Columbians to vacation at home," and "counter the anticipated effects of the GST." However, the government neither established specific expectations nor set goals for the project.

We concluded that the government provided the Society with sufficient overall direction for it to understand that it was to promote tourism, but the desired specific outcomes of the project were never established.

### Government Reorganization

Over the course of the Music '91 project, the name and mandate of the ministry responsible for tourism changed several times. The minister and deputy minister responsible for tourism also changed a number of times during this period, as indicated in Table 2.2.

The nature and frequency of these organizational and personnel changes, and the resulting lack of continuity in relations between the ministry and the Society, likely contributed to the high degree of autonomy that the Society enjoyed. Each change temporarily diverted attention from the ministry's administrative activities. Each minister and deputy minister in turn had to re-establish a relationship with the Society. In the interim, the Society operated with only limited input from the ministry.

### Controlling the Scope and Monitoring Progress of the Project

The scope of the project was determined by the Society. With the exception of the 1990 mall tour, the Society and its professional advisors determined what would be included in the project and what would be discarded.

We found little evidence of the Society having analyzed the value of events in promoting tourism. The marching band competition was dropped because it was not likely to attract tourists, but no other events were assessed in terms of their ability to attract tourists to the province or encourage British Columbians to vacation in the province.

At the same time, we found no evidence that the government critically reviewed any of the Society's business or financial plans. The government did

**Table 2.2**

Tourism Ministers and Deputy Ministers — 1988 to 1991

| | Ministry | Minister | Deputy Minister |
|---|---|---|---|
| July/88 | Tourism and Provincial Secretary | Reid | Smith |
| Sept/89 | Tourism and Provincial Secretary | Richmond | Smith |
| Nov/89 | Tourism | Michael | van Haaften |
| Jan/90 | Tourism | Michael | Kelly |
| July/90 | Tourism | Michael | Brent |
| April/91 | Development, Trade and Tourism | Dirks | Halkett |

request, and eventually received, a copy of the Society's "business plan." It also received copies of various budget and expenditure forecasts in support of the Society's requests for funding advances. None of these plans or forecasts was ever reviewed by Treasury Board, and there appears to have been limited review by any other organization.

The only control exercised by the government over the scope of the project occurred when the Society made requests for additional funding. A Cabinet committee reviewed and approved the Society's initial request for $12 million funding and its subsequent request for $5 million more. Treasury Board reviewed and approved the request for the further $3.2 million.

Reporting was ad hoc when interim or additional funding was requested. Budget and expenditure forecasts were provided in support of requests for funding, either for interim payments or for additional funding beyond the limits already approved. These reports were directed to the Ministry of Provincial Secretary and focused on the financial aspects of the project rather than on its marketing or events. That ministry, throughout the life of the project, tracked the level of funding committed to the project and the extent to which those funds had been advanced to the Society.

The government did not require any reporting from the Society except for audited financial statements to be included in the Public Accounts of the province. It did not require, and did not receive except informally, any progress reports during either the planning or implementation stages of the project. The Society provided only general information about the progress of the project. It did not provide the government with details of planned events and expected results, and there is no evidence of review or evaluation by the government.

Nevertheless, unstructured monitoring gave the government some information about the activities of the Society. The Minister of Tourism or a representative of the ministry occasionally attended meetings of the Society's directors. As well, regular, although informal, communication took place between the chairman of the board of directors and the Minister, particularly during the early stage. Cabinet and the government caucus were also briefed on several occasions by the chairman or the president of the Society.

After April 1991, when responsibility for the project was transferred to the Ministry of Development, Trade and Tourism, the government had considerably more information about the project than at any time before. The ministry hired a consultant to review the project in May 1991. Following this review, the government required regular progress reports from the Society, detailing the results of individual events and the financial status of the project. By this time, however, the Society had either spent or committed most of its funds and it was too late for the government to affect the development of the project significantly.

We concluded that the government did not effectively monitor or control the scope of the project. Except for the last six months of the project, the government had limited information about the progress of the project. We also concluded that the project, as finally delivered, was significantly different from the concept originally approved, both in cost and content.

## Evaluating the Results

We found no evidence that either the government or the Society was

concerned before mid-1991 about evaluating the success of the project. The Society was not required to do so, and no one within government was made responsible for that task.

The first call for an evaluation of the program came early in 1991 when responsibility for Music '91 was transferred to the Ministry of Development, Trade and Tourism. That ministry had a consultant prepare a report on the status of the Society and the project. The consultant recommended that the success of local Music '91 events be evaluated and reported on.

In July 1991, when Treasury Board approved additional funding of up to $3.2 million, it imposed a requirement that the Ministry of Development, Trade and Tourism evaluate the project on its completion. The ministry responded by contracting the consultant who had done the earlier evaluation to prepare a report that would evaluate:

- the impact of Music '91 events on the number of tourism visits to British Columbia;
- the impact of Music' 91 events on the number of residents who remained in British Columbia for their vacations;
- actual project performance against original objectives (including an evaluation of each sub-program as to the reasonableness of its cost in delivering the project);
- the selection process of "headline entertainers";
- the selection of sites for Roadshow Weekends; and
- the organizational structure of Music '91.

The results of this review were not available at the time of our audit.

In addition to this review, the Ministry of Tourism had a study done in September and October 1991 that surveyed the awareness and degree of participation by British Columbia residents in Music '91, and their travel patterns during the summer period. The results of this study indicate that most residents were aware of Music '91, but very little summer travel could be attributed to the project.

The government may, in the near future, have information to help it assess the effectiveness of the project. However, such an assessment will be largely ad hoc and late in coming. We believe an evaluation would have been more accurate and reliable had it been integrated into the planning and

conducted before, during, and after the project and individual events.

We concluded that the government was not initially interested in evaluating the effectiveness or value for money of the project. It became concerned about evaluating the project only after the Society had spent more money than was expected and the project's net economic benefits to the province were in question.

## Review of the Society's Financial Management

In November 1991, the Society instructed its auditors to provide an audit opinion on the adequacy of the Society's financial controls over revenues, expenditures, assets, and liabilities; and on whether the controls had been operating as designed during the period of the project.

With this review and the results of their audits for the fiscal periods ended March 31, 1990 and 1991 and October 31, 1991, the auditors were able to provide an opinion that the Society's financial control procedures were suitably designed to provide reasonable assurance that internal control objectives were achieved, and the control procedures operated effectively during the period of the project. However, because the audit was conducted after most of the Society's activities had been completed, the auditors were unable to perform such testing of financial controls as is normal when an entity is still operating. They were unable to make inquiries and observations that would normally have been done in testing internal controls.

The auditors did find there was an effective control environment for the Society's activities. This means that the internal financial management of the Society was satisfactory. The Society could account for all the money it received, it purchased goods and services in a manner that was likely to obtain good value for money, it protected its assets, and it could provide financial information when required. This conclusion is limited to financial management, however. It does not provide an opinion on how well other aspects of the Society's activities were managed, nor does it comment on effectively the Society met its objectives or achieved its intended results.

## Looking Ahead

The Music '91 project clearly illustrates the need for appropriate accountability frameworks for all funding commitments made by government, both internally and when contracting with organizations outside of government.

We recommend that any future commitment of public money be preceded by an assessment of risk and a cost-benefit analysis; that any project have a clear definition of objectives and how those objectives will be achieved and assessed; and that adequate provisions for monitoring and reporting progress of the project be in place.

# CROWN SOCIETIES

*A review of non-profit societies established by government, and their accountability to the Legislative Assembly*

## AUDIT PURPOSE AND SCOPE

In recent years, government has created a number of non-profit societies under the *Society Act* to achieve government objectives. These societies, which we refer to as Crown societies, initially consisted largely of members appointed or approved by the ministers responsible, though people from outside government have usually been added later. The ministries responsible for the affairs of the societies have been providing them with operating funds from within the ministry budgets or, in some cases, from grants requested from the Lottery Fund.

We undertook our review to determine why government had created these Crown societies, what the potential risks with them are, and how the risks are being managed. We also wanted to find out how accountable the Crown societies are to the government and to the Legislative Assembly for their financial management and the effectiveness of their programs.

Between November 1991 and February 1992, we interviewed a number of Crown society directors and ministry officials associated with these societies, and gathered other relevant information.

## OVERALL CONCLUSION

We found that government derives many benefits from creating Crown societies. However, there are various risks associated with using these semi-independent societies, and government often is not managing those risks adequately. Specific guidance from government about what it expects from the societies generally is lacking. Performance expectations are not always stated clearly, and a well-defined link between funding and the achievement of those expectations frequently is missing.

We also found that reporting practices between Crown societies and government are inconsistent and often informal. In addition, the performance of most Crown societies has not been measured objectively. As a result, accountability to government is inadequate. In some cases problems have occurred, such as poor performance or aggressive expansion of the scope of society activities. However, there are cases where Crown societies appear to have been successful in delivering good programs at a lower cost than otherwise might have been the case.

**Finally, we found that Crown society accountability to the Legislative Assembly and the public is poor or non-existent. Government does not routinely inform the Legislative Assembly about the creation, scope, or mandate of these societies; and the Crown societies themse'ves do very little to publicly report on the scope and effectiveness of their programs.**

## Crown Societies: Who They Are and What They Do

Our review started with a search across government to identify these Crown societies. For the purposes of this report, we defined a Crown society as one which had been established by the government under the *Society Act*. We found 18 of these societies, 15 of which had been created since 1985. They undertake a wide variety of activities, ranging from high technology research to museum management. In the 1990/91 fiscal year they had revenues totalling $50 million, which included grants from the government of $41 million. At the end of March 1991, their assets totalled $81 million and their debts $15 million.

Table 2.3 located at the conclusion of this section shows the names of the Crown societies that we found, along with a brief description of their activities and a summary of their finances. Some of these societies have all their board members appointed by government; some have only a minority appointed by government; and some now do not have any members appointed by government. However, all were initially created by government.

## How Government Creates and Controls Crown Societies

Typically, a Crown society starts with the desire of a minister or ministry to find a means to deliver a program separately from government, but with some degree of control. Sometimes the minister has been approached by an interested community group or industry with a request for a new program. Other times, the initiative comes from the minister or from within the ministry. In recent years, creating a semi-independent society under the *Society Act* has been seen increasingly as an administrative option by ministers and their staff.

Setting up a society is simple and inexpensive. The ministry has a lawyer draw up the constitution and by-laws, and the minister and the ministry recruit and appoint society directors. (In contrast, special legislation is usually used to establish a Crown corporation.) The information is filed with the Registrar of Companies and the directors take on the responsibility of managing the society. Often ministry personnel are appointed to the board. The ministry arranges operational funding, either from within its budget or from the Lottery Fund.

Ministerial control and influence over Crown societies can be subtle and complex. As the listing of Crown societies shows, there are three broad forms of control. The most obvious is where the minister appoints all or a majority of the board. In two Crown societies we reviewed, the entire membership of the society is made up of ministry personnel. But control can take other forms as well. In cases where ministry representation on a board is

less than a majority, the influence of ministry people may be significant because they represent the funding source. Even in cases where the minister makes no formal appointments, control can be exercised through an informal agreement or a clause in the by-laws which requires the minister's consent to the directors chosen by the society. Funding agreements may also lay out terms and conditions in a formal way, but personal contacts and relationships are often the real basis of control.

The variety of control methods makes it impossible to distinguish categorically between the different degrees of control of Crown societies. In addition, sometimes the degree of control changes over time. For example, the Discovery Foundation was incorporated with a board of trustees appointed by the minister. For a time, the minister or the minister's nominee was on the board. Now there is no government-appointed board member, although the Foundation is still required to comply with the provisions of the *Financial Information Act*.

## Why Government Creates Crown Societies

Creating a Crown society offers government several possible benefits:

- promotion of industry and community involvement;
- greater flexibility in management and operations;
- reduction in government involvement; and
- availability of outside funding.

### Industry/Community Involvement

A Crown society, by being semi-independent, can involve non-government persons in its management and operations. Many of the people we interviewed felt that drawing on the expertise of non-government people makes programs more likely to succeed. For example, the F.D.B.C. Film Development Society and the P.R.I. Pacific Rim Institute of Tourism include on their boards people who are active in the film and tourism industries, respectively. In addition to board members who volunteer their time and expertise, four Crown societies also use volunteer staff in their programs. For example, the Cloverdale Historic Transportation Society of B.C. was able to attract volunteers to assist in operating its museum. Those we interviewed believed these volunteers would not be as forthcoming if programs were operated in a traditional government manner.

### Flexibility

An independent organization also allows for faster and more flexible decision-making — a more entrepreneurial style of operating. For example, ministry staff connected with the Downtown Revitalization Program Society of B.C. cited occasions when they were able to respond quickly with decisions on loan applications. The society was able to act promptly because its decisions did not have to be cleared through many layers of a bureaucracy.

Some of the people we talked to also said that this flexibility allowed them to set salary and working arrangements that took into account the sometimes unique circumstances of the societies. They felt that the internal government labour relations and culture would not have been able to cope as well with such

situations as irregular hours of operation, extensive travel, and periods of intense activity at critical times. They also felt it was easier in some cases to attract specialized staff who would not work for government directly.

### Reducing Government Involvement

Sometimes government's purpose in creating a Crown society is to start a program off and then let it continue more independently. For example, the B.C. Festival of the Arts Society started with a board entirely appointed by government. The intention, however, is to reduce over time the number of government appointees, leaving the society with a more community-based board. Although a Crown corporation may have community representation on its board, it cannot move towards more community ownership except through a formal privatization process.

### Availability of Outside Funding

When outside funding is available, government may be able to reduce the amount of funding it gives to a Crown society. As a non-profit organization, a Crown society may be able to get federal funding and individual and corporate sponsorship which would not be available to a ministry or a Crown corporation. We also found that a number of Crown societies were being funded from the Lottery Fund. Indeed, the access to these funds was sometimes a factor in the decision to create a society.

## The Risks Associated With Crown Societies

Despite the many potential benefits of having Crown societies, the advantages can be offset by the risks involved if the risks are not managed

*A performance at the Festival Of The Arts*

properly. Creating a society can draw a veil over public access to information and accountability. A proper accountability reporting process is therefore essential to reduce the risk of waste or abuse.

### Loss of Accountability

Although Crown societies are created by government, they are not bound by administrative procedures that govern ministries. Such procedures cover everything from public reporting to expenditure, staffing, and salary controls. There is always the risk that staff or directors could charge inappropriate salaries, management fees, or travel and hospitality expenditures once the operations are outside traditional government controls. There are no guidelines for controlling expenditures in Crown societies.

However, the risk of inappropriate expenditures in Crown societies is reduced by other factors. All of these societies are audited by external auditors, and some have received other evaluations of their internal operations and controls. Salary levels of staff in Crown societies are usually comparable to, and in some cases below, those of the public service. We also found that the directors of only one society (none of whom were public servants) receive honorariums, although directors are usually reimbursed for travel costs to attend meetings. Nevertheless, the risk that there might be inappropriate salaries or expenses remains, and should be addressed.

### Lack of Public Disclosure

Crown societies offer a quick and convenient means of starting and operating programs with a low level of public scrutiny. In contrast, a Crown corporation usually requires special legislation to establish it, and is often subject to more extensive reporting requirements.

Furthermore, once a society is set up, it can embark on strategies that may take it beyond its mandate or original concept. It may, for example, expand by creating subsidiaries or foreign ventures. There may be valid reasons for such subsidiaries, but we are concerned that organizations affiliated with government can apparently proliferate without public scrutiny. There are several examples of Crown societies with subsidiaries:

- The B.C. Health Care Systems Society incorporated a subsidiary company in British Columbia to market health-care management software. That company in turn incorporated two subsidiary companies, one in Washington State and the other in Australia. The company and its subsidiaries were disposed of in 1990 to private interests.

- The Terry Fox Medical Research Foundation had five affiliated companies; two were wholly owned subsidiaries and three were owned jointly with either a Canadian or a British pharmaceutical company. The Foundation had two other affiliated companies, one a wholly owned subsidiary and the other jointly owned, both of which were dormant. The Foundation is now being closed.

- The Discovery Foundation has incorporated two subsidiary companies: Discovery Enterprises Inc., a venture capital corporation, and Discovery Parks Inc., which operates the industrial/research parks at the University of British Columbia, Simon Fraser University,

and the British Columbia Institute of Technology.

### Conflict of Interest

As we have mentioned, the ministry that establishes a society usually provides or arranges the funding. This increases the discretionary powers of the minister and ministry staff over the eventual use of the funding and over the selection of staff and directors. As this review did not involve a review of the affairs of any individual society, we did not assess whether this has led to any improper practices.

This arrangement may also result in ministry employees being appointed to the board of the society. Many of the ministry staff we interviewed felt some discomfort in making funding or other decisions about a society in the course of their ministry duties, while also being on the board of that society.

In practice we found that there are checks and balances in government that minimize potential conflicts in which these ministry employees may find themselves. Many of the people we interviewed stated that they were there to represent the ministry's point of view at society board meetings. Furthermore, funding requests are subject to review by other ministry and central agency personnel. We were also told that having ministry personnel on the board enhanced communications between the ministry and the society and helped protect the ministry's interests.

## Managing the Risks: Internal Government Processes

A fundamental rule of good management is: if you relax controls, look for better accountability. We believe there is nothing inherently wrong with using societies to deliver government programs, as long as proper accountability arrangements are in place. These include the setting of clear objectives and performance expectations, the linking of funding to those objectives and expectations, and the reporting back to government of the progress made in achieving those objectives and expectations.

We found that there is little systematic evaluation of Crown society programs. Some ministry staff and society directors expressed concern at the lack of clear direction societies receive from government, and would welcome a more structured approach. We did, however, find some society programs that have a high level of acceptance in the communities or industries they serve. We also found that many of the officers of Crown societies are willing to be more accountable to the taxpayers and the Legislative Assembly.

### Objectives

We found that government provided Crown societies with a reasonably clear sense of purpose at the time of their creation. The broad objectives of Crown societies are usually stated in their constitutions; more specific objectives are communicated less formally by ministers and their staff.

In some cases, more specific objectives were set out in funding agreements. When government makes a conditional grant, it sets out the terms and conditions for the grant in a funding agreement. This agreement is typically in the form of a contract, whereby the society contracts to perform certain services. The objectives range from very general to very specific. For example, the purpose of the B.C. Festival of the Arts Society is to "operate the Festival". However, the B.C.

Advanced Systems Foundation is to follow a specific work plan which includes such detailed objectives as "develop a plan leading to a regularly rotating population of at least 30 (university) fellowships within 3 years." We found that all except 3 of the 18 Crown societies had funding agreements or some other form of contractual arrangement with government. We regard funding agreements as being necessary for translating broad statements of purpose into more measurable objectives.

## Performance Expectations and Reporting Back to Government

Providing overall objectives is not enough. To ensure that value for money is obtained from the public funds given to Crown societies, government must translate overall objectives into benchmarks for performance. These expectations must be clearly defined and should be measurable, so that the issue of success (or lack of it) is not in doubt. In addition, government must require structured reporting by the societies on their performance.

We reviewed reporting by Crown societies on their performance under two main headings: financial and operational. We found the financial reporting was good, but there was little objective or structured reporting on the effectiveness of Crown society operations. The financial reports show where the money is spent, but not whether value is being received for the money spent. To report on performance, there must be performance criteria or targets so that results can be compared to expectations. We found that government generally has not developed well-defined performance criteria for the Crown societies. As a result, reporting on performance by these groups is usually poor or non-existent.

We did find that ministry staff undertake informal and ongoing reviews of the operations of the Crown societies, since ministries have to be prepared to justify to Treasury Board the amounts of grants. In addition, a few of the societies prepare business plans to support their funding requests, and these contain some justification for their requests. However, these reviews are usually unstructured and informal.

Some of the funding agreements require the societies to report back to government on their activities, such as with the Law Courts Education Society. However, these are reports on the type of activity, not on effectiveness.

We noted some examples where the absence of performance criteria or structured reporting has contributed to problems:

- The British Columbia Year of Music Society received approximately $19 million in net government grants. However, government did not give the Society clear objectives, and did not have sufficient benchmarks against which to evaluate the plans or performance of the Society. The accountability relationship between government and this Society is the subject of the report section titled "British Columbia Year of Music" which immediately precedes this section.
- The Terry Fox Medical Research Foundation was the subject of an external review which indicated that it had expanded into areas beyond its resources and abilities, and that the complexity of its structure made assessing its performance difficult. Up to that point, there had been no structured reporting to government

*John Lennon's Rolls-Royce, British Columbia Transportation Museum, Cloverdale*

on the effectiveness of the Foundation.

- The Cloverdale Historic Transportation Society of B.C. was formed in 1986 by the then Minister of Tourism, Recreation and Culture to manage a collection of antique cars and trucks. This valuable collection, which is owned by the province, was housed in the British Columbia Transportation Museum in Cloverdale and was assembled at the time of EXPO 86. The museum was in an inappropriate though low rent site, and proved unable to attract many visitors, despite spending over $500,000 in promotional costs.

  The Society never received clear direction or consistent support from government. The original board of the Society comprised people who were knowledgeable about the collection. Board members with stronger business skills were added later, and a business plan was prepared in 1989. However, government instead asked B.C. Pavilion Corporation to take over the administration of the museum. The government announced in the 1992 Budget speech that the museum would be closed.

## Program Evaluations

While it is important that Crown societies report on their performance, it is also important that comprehensive evaluations of the societies and their programs be carried out. Evaluations should assess not only the effectiveness of programs and whether they should continue, but also the effectiveness of the societies themselves—whether they are the best means to deliver the programs concerned. This type of evaluation should also seek to provide evidence to support the conclusions reached.

Evaluations of each society should not necessarily be done each year; every two to five years, depending on the

program, would be appropriate. Five of the Crown societies have been operating less than three years and so may not have matured to the point where an evaluation can be done.

We found that evaluations had been done on only 4 of the 18 societies: the B.C. Advanced Systems Foundation, the B.C. Summer and Winter Games Society, the Discovery Foundation, and the Terry Fox Medical Research Foundation. The Downtown Revitalization Program Society of B.C. is also planning an evaluation, the program itself having been previously evaluated in February 1987, before the incorporation of the society. We also noted that the B.C. Health Care Risk Management Society has produced a five-year review which sets out what the Society has achieved and quantifies the cost-savings that have resulted.

The evidence gathered in the course of these evaluations has been specific. The evaluation of the Downtown Revitalization program, for example, gathered such evidence as a comparison of business rental and vacancy rates both before and after a project, and between areas of the same community where some had participated and some had not. Such concrete measurements of program success are necessary to justify continuation of expenditures.

## Public Reporting

Another purpose of our review was to see what the Crown societies reported to the Legislative Assembly and the public. We did not find very much.

Crown societies give out information through published annual reports, reports to the Registrar of Companies, the Public Accounts, and other documents.

We asked for opinions in our interviews about whether Crown societies should table reports in the Legislative Assembly. Some individuals felt that since the operations of the Crown societies were not significant compared to overall government operations, tabling reports would not be necessary. Instead, the information would be available if asked for. Others took the view that the more publicity and exposure there was, the better the chance of getting funding and support.

### Published Annual Reports

We found that 4 of the 18 Crown societies had issued an annual report for the 1991 fiscal year. These reports describe the purposes of the societies and give an account of their activities during the year. In each case except one, it is not possible to tell how well the societies' activities corresponded to their plans. Only the British Columbia Advanced Systems Foundation has identified objectives in its report and has reported on how it is doing in relation to those objectives. We believe this should be a more common practice.

### Reports to the Registrar of Companies

All Crown societies must file the specific form of annual report required by the *Society Act*. These reports, as well as the constitution and by-laws, are available to the public (for a small fee) from the Registrar of Companies in the Ministry of Finance and Corporate Relations. However, the information available in these reports is limited, being only a list of the directors and the financial statements. Despite the less than onerous nature of these required reports, 8 of the 18 Crown societies were overdue for filing as at January 31, 1992.

All of the financial statements filed by the Crown societies had been

audited. The *Society Act* does not require this unless the society is a "reporting" society. Only 1 of the 18 Crown societies is a reporting society. The *Society Act* gives the power to the Registrar of Companies to designate a society as a reporting society, allows a society to voluntarily become a reporting society, and specifies that certain types of societies be reporting societies. We believe that all Crown societies should be set up as reporting societies so that the financial statements are required to be audited.

### Information in the Public Accounts

We found that the information in the Public Accounts about the financial results of the Crown societies is inconsistent:

- Only one of the Crown societies is required to comply with the provisions of the *Financial Information Act*, and therefore has a summary of its audited financial statements published in the Public Accounts.
- The financial statements of five other Crown societies are published separately in the Public Accounts, because they are consolidated with the government financial statements. The government controls these five Crown societies in a legal sense, by appointing or controlling the appointment of more than half of their respective boards.
- There is no information on the financial results of the other 12 Crown societies.

We believe that all of the Crown societies whose financial statements are not consolidated should be required to comply with the provisions of the *Financial Information Act*. This Act requires that certain financial information be made available to the public, and a summary of the audited financial statements of public bodies which comply with the provisions of the Act is published in the Public Accounts.

The Public Accounts also include a list of grants and payments made to various organizations and individuals, including Crown societies. However, the Crown societies are hard to find in this list, which is 146 pages long and contains approximately 9,400 entries. There is nothing to distinguish Crown societies from independent arms-length entities. We also found that grants to some Crown societies are difficult to find as they are listed under names that are different from the societies' registered names. For example, the grant to the B.C. Summer and Winter Games Society is listed under "BC Games". The grant to the F.D.B.C. Film Development Society of British Columbia is listed under "BC Film". The grant to the ICA Foundation of British Columbia is listed under "BC International Commercial Arbitration Centre". We believe that the legally registered names of the grant recipients should be shown, and that they should be identified as Crown societies.

### Other Forms of Public Reporting

Crown societies which do not produce an annual report may still be visible to the Legislative Assembly or the public.

We noted that the B.C. Health Care Risk Management Society issued a five-year review in 1991, as we mentioned earlier. The Downtown Revitalization Program Society of B.C. has just issued a newspaper-style report covering the last three years, and plans to produce a similar report annually. In addition, the

F.D.B.C. Film Development Society produces an annual overview of its activity, listing the projects and people supported.

Three other societies were referred to in the annual reports of their ministries, although these references do not contain enough information to allow one to assess their performance. In addition, some societies have become visible through the nature of their activities. For example, the B.C. Winter Games which took place recently in Vernon received considerable publicity. However, structured objective reporting by most Crown societies to the Legislative Assembly is rare.

## Looking Ahead

We believe that the interests of Crown societies, their parent ministries, and the Legislative Assembly can be served best in two ways: by improved internal government management processes, and by better public accountability. We believe these societies give government an opportunity for gaining experience with the new kinds of accountability relationships that are emerging in the public sector.

### Improving Internal Government Management Processes

Internal government management of Crown societies can be improved in several ways.

First, ministries with affiliated Crown societies should assess the clarity of their expectations for these societies. Broad statements of purpose should be translated into measurable objectives and statements of scope. The funding required to meet these objectives should be carefully analyzed. This kind of exercise may need the cooperation of the societies concerned.

Second, the objectives and scope of the societies should be set out in formal agreements between the ministries and the societies, together with funding details. Reporting requirements should also be set out in the agreements.

Third, the ministries should have a monitoring process that allows them to predict and assess performance routinely, as well as having strategies for dealing with unsatisfactory situations.

Fourth, as well as receiving regular reports on progress, government should periodically evaluate each society and its programs to determine whether its original objectives are still relevant, whether the programs are a success, and whether the society is still an appropriate means to deliver the programs. Independent evidence should be gathered to support the conclusions of the evaluation.

Government should have a consistent overall framework for evaluating the performance of Crown societies. We believe that the reporting of society performance should be based on the "Twelve Attributes of Effectiveness" framework as set out by the Canadian Comprehensive Auditing Foundation. These attributes cover financial reporting, reporting on the program itself, and the organization of the society. We have discussed this framework further in Part I of this Report.

### Better Public Accountability

The Legislative Assembly should receive information about the creation, mandate, plans, and performance of Crown societies. The extent of the information should reflect the relative importance of each society and the cost of producing the information. We

recognize that the activities of some Crown societies are less significant than others, and that it may not be necessary for every Crown society to report directly to the Legislative Assembly. Accordingly, we believe that a central registry of all Crown societies should be maintained. This registry would identify which societies report automatically to the Legislative Assembly and which do not. The Members of the Legislative Assembly would then be able to request information, if necessary, on the societies that do not report. However, information on the creation of all Crown societies and any changes to the organization of any of the societies or their programs should always be reported to the Legislative Assembly.

### Creation and Mandate

The Legislative Assembly should be able to review the proposed creation of every Crown society. This could be achieved if information were tabled or included in the Estimates. Information should be provided on:

- the purpose of the Crown society and the intended scope of its activities;
- the amount and source of its funding;
- who the members are, how new members can join, how the directors will be appointed, and who the first directors are; and
- which minister is responsible for the society.

Any changes from the initial purpose or scope identified when a society was formed should be reported. This might include the continuation of the program beyond the original time frame, the cancellation of the program, the dissolution or reorganization of the society, any changes involving subsidiary or affiliated organizations, and significant changes in levels of financial activity.

### Plans

The Legislative Assembly should be able to review the current and long-term plans of Crown societies. Information in each plan should cover the annual budget, forecasts of future operating and capital expenditures, and the business and program plan for the coming year and the long term. The plans of societies which are required to report to the Legislative Assembly should be tabled in an annual or special report, or as part of the Estimates. The plans of other societies would be available on request.

### Performance

The Legislative Assembly should be provided with information on the performance of the Crown societies. Performance reporting should cover program and financial results. The results of societies which are required to report to the Legislative Assembly should be tabled in an annual or special report. The results of other societies would be available on request.

### A Model for the Future

There is a trend in governments world-wide to improve their operations by, in part, reducing rigid bureaucratic controls. One approach is to break up large departments into smaller, more autonomous agencies. In this approach, government sets the objectives and provides the budget for these agencies, but allows each organization to decide on its own how it will achieve those objectives within the budget. An important part of this process is the

reporting to government on the effectiveness of the agency.

A Crown society can be operated in this way, or can be used to involve industry or the community in a government program. Either way, however, the issues relating to how government directs Crown societies, and how it holds them accountable for their performance, are the same for these societies as for any other semi-independent form of government organization. It is therefore important that government develop good processes for monitoring Crown societies, since these processes may serve as a model for other government entities.

**Table 2.3**

Crown Societies:

Who They Are and What They Do

We identified the following as Crown societies. Although we have grouped them according to the number of government appointed board members, this is a somewhat arbitrary distinction, since the methods of control and influence can vary. As well as board appointments, ministries can exercise control through funding or other, less formal, means.

| | Financial Information for the 1990/91 fiscal year ($000's) | | | |
|---|---|---|---|---|
| | Grants from province | Society Revenues | Assets | Liabilities |
| ***Societies where the minister appoints all of the board:*** | | | | |
| **B.C. Festival of the Arts Society** manages the Festival of the Arts and encourages interest and participation in amateur arts | 800 | 845 | 822 | 14 |
| **B.C. Health Care Risk Management Society** provides risk management services to hospitals and other health care agencies | 5,346 | 5,356 | 114 | 29 |
| **B.C. Summer and Winter Games Society** manages the summer and winter games held each year in the province | 3,000 | 3,352 | 755 | 440 |
| **British Columbia Year of Music Society** promoted tourism in British Columbia in 1991 through a musical extravaganza | 8,000 | 9,151 | 1,681 | 1,290 |
| **Downtown Revitalization Program Society of B.C.** stimulates the physical and economic revitalization of downtown areas | 5,000 | 1,723 | 17,136 | 64 |
| **Plain Language Institute of British Columbia Society** provides leadership in the use of plain language in government, business and the legal community | 216 | 452 | 248 | 9 |
| **P.R.I. Pacific Rim Institute of Tourism Society** develops standards for training and accreditation in tourism | 516 | 590 | 122 | 125 |

**Table 2.3**

(Cont'd)

| | Financial Information for the 1990/91 fiscal year ($000's) | | | |
|---|---|---|---|---|
| | | Society | | |
| | Grants from province | Revenues | Assets | Liabilities |
| ***Societies where the minister appoints at least one, but not a majority, of the board:*** | | | | |
| **The British Columbia Advanced Systems Foundation**<br>provides a centre of excellence in advanced systems for the economic benefit of the province | 2,649 | 2,959 | 1,136 | 177 |
| **B.C. Health Care Systems Society**<br>promotes, develops and maintains computer systems in hospitals and other health care institutions | 5,112 | 5,112 | 1,499 | nil |
| **F.D.B.C. Film Development Society of British Columbia**<br>promotes artistic and economic development in the arts-based industries of indigenous film and video | 5,000 | 6,856 | 7,152 | 15 |
| **IFC International Financial Centre Society of Vancouver**<br>promotes the development of Vancouver as an international financial centre | 322 | 354 | 78 | 79 |
| **The ICA Foundation of British Columbia**<br>offers arbitration services for the settlement of international commercial disputes | 385 | 961 | 312 | 11 |
| **The Law Courts Education Society of British Columbia**<br>conducts public legal education programs | 536 | 617 | 71 | 28 |
| **The Terry Fox Medical Research Foundation**<br>undertakes biomedical and pharmaceutical research | nil | 1,529 | 12,063 | 9,150 |
| ***Other Societies:*** | | | | |
| **Cloverdale Historic Transportation Society of B.C.**<br>(the members elect their own board, but all appointments are vetted by the minister)<br>operates the British Columbia Transportation Museum | 1,263 | 1,447 | 306 | 253 |
| **Discovery Foundation**<br>(the first trustees were appointed by the minister; for a time, the minister or nominee was a trustee; at present, there is no government representation on the board of trustees)<br>promotes science and technology by linking business, educational institutions and government | 907 | 5,544 | 34,600 | 3,502 |
| **The Education Technology Centre of British Columbia**<br>(new members are appointed by the existing members, but each member must be consented to in writing by the minister; the members elect the board)<br>a research and leadership centre, promoting the effective use of information technology in schools | 2,285 | 3,057 | 2,571 | 235 |
| **International Maritime Centre - Vancouver**<br>(the members elect their own board, but the executive director, who is not on the board, is a public servant)<br>promotes the development of Vancouver as a location for international shipping firms | Incorporated in March 1991 | | | |
| **TOTALS** | 41,337 | 69,595 | 80,666 | 15,421 |

# Compliance with Part IV of the Financial Administration Act

*An assessment of compliance with the expenditure provisions of the Financial Administration Act*

## Audit Purpose and Scope

We conducted this audit to assess the government's compliance with the legislative requirements of Part 4 of the *Financial Administration Act* (the Act) and its related Regulations.

We carried out our audit in January 1992. Our examination was carried out in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances. We checked the government's compliance with the specific requirements of Part 4 of the Act, consisting of sections 18 to 35, and related Regulations, during the six-month period ended March 31, 1991. Our audit was extended to December 31, 1991 with respect to Section 21 of the Act, which provides for the use of special warrants.

This audit was the second phase of our examination of compliance with Part 4 of the Act. Phase one of the audit, encompassing the six months ended September 30, 1990, was reported on in the Auditor General's 1991 Annual Report to the Legislative Assembly.

## Overall Conclusion

We concluded that, except for the effects of our observations on providing certificates for payment, the government, in all significant respects, complied with the legislative requirements of Part 4 of the *Financial Administration Act* and its related Regulations during the six months ended March 31, 1991. In addition, we did not find any deviation from the special warrant provisions in the Act during the nine months ended December 31, 1991. However, we believe that the manner in which the government interpreted and applied Section 21 of the Act in issuing special warrants during that period gives rise to considerable concern regarding the control of, and accountability for, government expenditures.

## Introduction

Through the *Financial Administration Act*, the legislature directs the government in how it must control and manage the resources entrusted to it, and in how the government must be held accountable to the legislature for carrying out these responsibilities.

The short title for Part 4 of the Act is "Expenditure." This Part includes rules, enabling legislation, and other provisions relating to a wide variety of expenditure-related subjects. Some of the many topics covered by Part 4 of the Act are:

- payments out of the Consolidated Revenue Fund;
- trust funds;
- estimates and votes;
- special warrants;
- payments contingent upon receipts from others;
- payments after the end of the fiscal year;
- Treasury Board powers to establish regulations for expenditure;
- agreements, contract performance, related payments, and holdbacks;
- insurance and risk management;
- records of commitments;
- payment requests and authorization;
- advance payments; and
- monitoring and reporting by the Comptroller General.

In making our assessment of the government's compliance with Part 4 provisions, we considered the following factors:

- the role of the accountable officials and organizations named in the Act;
- the major financial activities governed by the Act;
- the public documents affected by the Act; and
- the materiality of dollar amounts involved.

## Observations of Significance

### Certificates for Payment

Section 29 of the *Financial Administration Act* states that:

> No payment shall be made out of an appropriation or a trust fund for the performance of work, the supply of goods, the rendering of services or for any other purpose, whether or not under an agreement, unless a certificate is given by a person referred to in section 28(4)
>
> (a) that the work has been performed, the goods supplied, the service rendered or other conditions met, and that the price charged or amount to be paid is according to the agreement, or if not specified by agreement, is reasonable, or
>
> (b) where a payment is to be made before the completion of the work, the delivery of the goods, the rendering of the service, or the meeting of other conditions, that the payment is in accordance with the agreement.

Section 28(4) of the Act states that:

> No person other than the following has authority to sign a requisition or to give a certificate under section 29:
>
> (a) a minister or his deputy;
>
> (b) the Speaker of the Legislative Assembly;
>
> (c) the Auditor General;
>
> (d) the Ombudsman;

(e) a person authorized by directive of the Treasury Board;

(f) a person authorized by a person referred to in paragraphs (a) to (d) in accordance with directives of the Treasury Board.

The *Home Owner Grant Act* requires that the Ministry of Municipal Affairs, Recreation and Housing reimburse municipalities for Home Owner grants that have been claimed by taxpayers within each municipality. During the fiscal year ended March 31, 1991, $404 million in Home Owner grants were processed and sent to municipalities.

None of the reimbursements for Home Owner grants that we examined was certified by a person referred to in Section 28(4), to state that the amount to be paid was reasonable, as is required by Section 29 of the *Financial Administration Act*. Discussions with the ministry revealed that there was no established practice to provide such a certification for this type of payment to municipalities.

We also noted instances in other ministries where persons with no delegated authority, or with authority to sign only small dollar amount requisitions, had certified or signed requisitions for substantially larger amounts. One area manager, for instance, had signed a payment requisition for $156,060 for a contract payment on a special employment project, even though area managers for that particular ministry had no authority to sign requisitions for contract performance. In another instance, an individual with authority to sign a requisition up to $20,000 had signed a requisition for $356,036.

Consequently, Sections 28(4) and 29 of the *Financial Administration Act* were not complied with to a significant extent.

## Special Warrants

Section 21(1) of the *Financial Administration Act* states:

> If, while the Legislature is not in session, a matter arises for which an expenditure not foreseen or provided for or insufficiently provided for is urgently and immediately required for the public good, the Lieutenant Governor in Council,
>
> (a) on the report of the appropriate minister that there is no appropriation for the expenditure or that the appropriation is exhausted or insufficient, and that the expenditure is urgently and immediately required for the public good, and
>
> (b) on the recommendation of the Treasury Board,
>
> may order a special warrant to be prepared for the signature of the Lieutenant Governor authorizing the payment of an amount the Lieutenant Governor in Council considers necessary out of the consolidated revenue fund.

Government Estimates of revenue and expenditure outline details of the government's proposed financial plan for the year. The 1991/92 Estimates were presented to the Legislative Assembly on May 21, 1991. Because of significant political changes in the province and an abbreviated legislative session in 1991, the Estimates for the 1991/92 fiscal year did not receive the complete attention they require from the Legislative Assembly. The traditional process of detailed perusal and debate of government expenditures

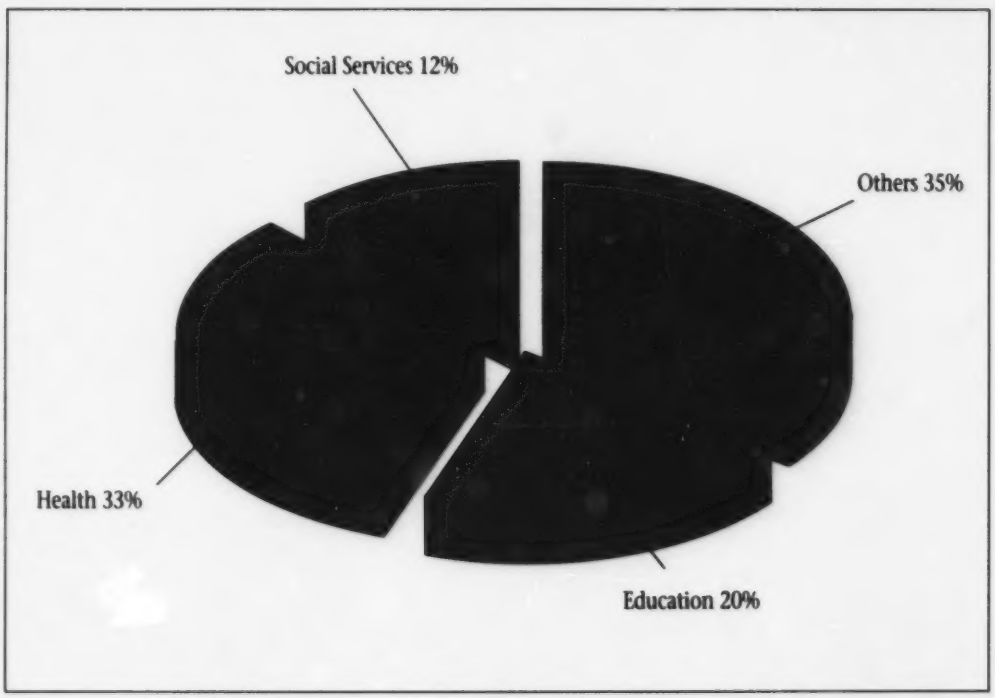
before final approval of the *Supply Act* and resolutions on Votes was carried out for only three social service ministries: Education, Health, and Social Services. Consequently, other ministries were effectively left to their own devices, because they were not restricted by legislation to the constraints of individual expenditure Votes.

At the beginning of the 1991/92 fiscal year the Legislative Assembly was not in session. Therefore, the Government used its powers under Section 21 of the *Financial Administration Act* to obtain authorization for payments out of the Consolidated Revenue Fund. A special warrant, No. 1, was issued for $2.9 billion, effective April 1, 1991. This special warrant allowed each ministry to spend up to a specified limit. At the end of May 1991, the legislature passed the *Supply Act (No. 1), 1991,* providing $5.4 billion towards defraying the charges and expenses of the public service of the province for the fiscal year ending March 31, 1992. This voted expenditure appropriation included all amounts already authorized by special warrant. In total, at this juncture, the government was authorized to spend up to a third of its estimated 1991/92 annual expenditures of $16,545 million. The Estimates, which were laid before the Assembly on May 21, 1991, were the basis for this interim supply. However, the expenditure amounts authorized by *Supply Act (No. 1), 1991* were not for specific ministries or Votes.

**FIGURE 2.1**

Comparison of Government Expenditure in the Three Social Service Ministries with Other Public Service Expenditures for the 1991/92 Fiscal Year ($ in millions)

*Source: 1992 Estimates*




On June 27, 1991, the passage of the *Supply Act (No. 2), 1991* approved the funding contemplated in the Estimates for ministries of Education, Health, and Social Services. In the course of Act approval, the individual Votes of these three ministries were debated and voted upon by the Legislative Assembly. Expenditure Estimates for other government ministries were still not debated or approved.

As the result of *Supply Act (No. 2), 1991* the following authorized levels of funding became available to ministries for 1991/92:

| Ministry | | $ millions |
|---|---|---|
| Voted: Education | 3,286 | |
| Health | 5,400 | |
| Social Services | 1,984 | 10,670 |
| Not Voted: All others | | 2,738 |
| | | 13,408 |

In order to pay for the ongoing day-to-day public services provided by the government, the following additional special warrants were issued up to December 31, 1991:

| Special Warrants | $ millions |
|---|---|
| No. 2 - September 19, 1991 | 716 |
| No. 3 - October 29, 1991 | 261 |
| No. 4 - November 13, 1991 | 777 |
| No. 5 - December 11, 1991 | 15 |
| | 1,769 |

Management of the public purse is a continuing responsibility of the government. Section 6 of the *Financial Administration Act* states that each minister is responsible for the administration of the financial affairs of his ministry under the general direction of the Minister of Finance and the Treasury Board. Normally, the specificity of Votes provides guidance

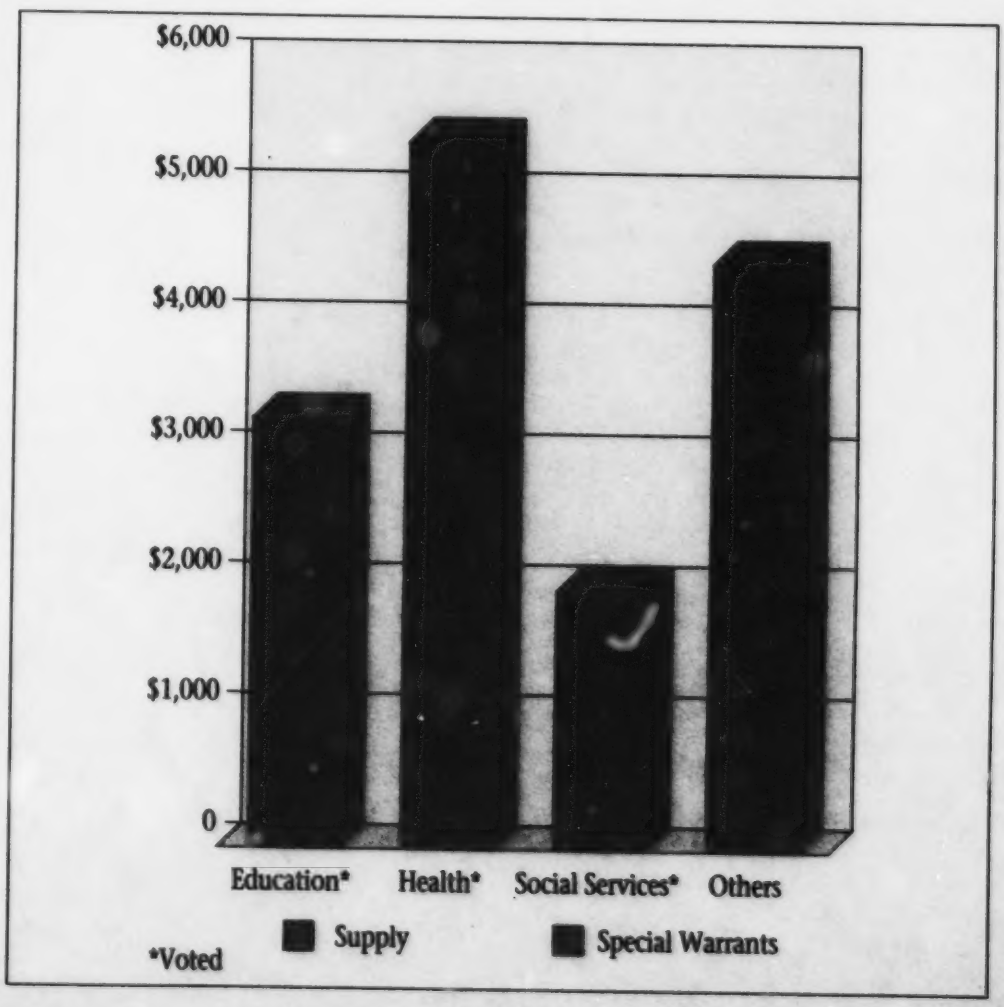



**FIGURE 2.2**

Total 1991/92 Appropriations to December 31, 1991 ($ in millions)

*Source: Supply Acts and Special Warrants*

for controlling and monitoring expenditures. Accordingly, in prior years ministries would be held accountable for expenditures to the Vote level. In the absence of appropriations by Votes, accountability in all but the three social service ministries has shifted from the "Vote" to the "ministry" level for 1991/92. It is, in fact, even questionable whether ministries could legally be held accountable for exceeding any arbitrary allocation of the appropriation provided by the *Supply Act (No. 1), 1991*, which is for public services of the province, and as such is general and non-specific to ministries.

In this audit we did not examine the 1991/92 fiscal year expenditures for compliance with the requirements of the *Financial Administration Act*. Therefore, we cannot comment on how control and accountability might have been affected as a result of not having in place the traditional authority of Votes and ministry expenditure limits. However, the potential for financial irregularities may be more prevalent under these circumstances.

Part of the reason for potentially weakened financial control in the 1991/92 fiscal year may be attributed to the succession of special warrants used by the government to fund regular government operations. From a legal standpoint, the government believed that it was within its rights to conduct its business using the authority of special warrants. While this may be the case, in doing so it reduced significantly its ability to exert effective control over the orderly management of the public purse.

This effective control has always been regarded as the main reason for the *Financial Administration Act*. We believe that sections of Part 4 of the Act may be seriously undermined by the lengthy and successive use of the legal authority under Section 21 of the Act, which is intended for expenditures not foreseen or provided for, or insufficiently provided for, and are urgently and immediately required.

Section 21 of the Act outlines specific circumstances in which a special warrant may be issued. A specific stipulation of the section is that there exist the situation where expenditures are urgently and immediately required. Special warrants have, in the past, normally been used to provide for such expenditures. It is difficult to consider the day-to-day operations of all government programs as qualifying as emergency situations, particularly in the early part of the fiscal year when the then government had in place the Estimates of its 1991/92 fiscal year revenues and expenditures well in advance of the occurrence of the related expenditures.

Another specific stipulation of Section 21 of the Act is that the expenditures for which a special warrant is issued were not foreseen or provided for, or were insufficiently provided for. The phrase "not foreseen or provided for" in this section of the Act could, in our opinion, be taken to mean that the expenditures were neither foreseen nor provided for (i.e., not included in the Estimates).

In the interest of ensuring proper administration of the financial affairs of the government, and to clarify the intended use of special warrants for the future, we believe that it would be useful if Members of the Legislative Assembly were to review, and to make changes as considered appropriate to, Section 21 of the *Financial Administration Act*.

*We are pleased to have the opportunity to respond to the comments and recommendations made in this Report.*

### *Certification for Payments*

*We acknowledge that no reasonableness certification was made on the payments for Home Owner Grants made to the municipalities. However, we do not believe that this indicates any lack of control because the Ministry relies upon the certification made by the Municipal Collectors for each payment. The final certification is made, in most cases, by the municipalities' auditors.*

*Government uses a system of formal delegations to authorize the individuals filling certain positions responsibility for signing approvals for payment. There are a large number of changes made to these authorities as staff move from one position to another. On some occasions the level of authority delegated may not be sufficiently clearly communicated. We shall endeavour to correct this.*

### *Special Warrants*

*The government is currently reviewing the Financial Administration Act and the Auditor General's comments regarding Special Warrants will be considered.*

*In view of the fact that the Auditor General has questioned the interpretation traditionally given to Section 21 of the Act, clarification of its intent would be helpful. This would resolve the first of the two concerns raised in this Report, namely, the legal intent for the use of Warrants to fund government operations when the House is not sitting.*

*The second concern, how funds appropriated by Special Warrant should be managed and reported, can also be addressed by the possible inclusion of new wording in the Section.*

## MINISTRY OF ATTORNEY GENERAL

# FAMILY MAINTENANCE ENFORCEMENT PROGRAM

*An audit of how well the Ministry is monitoring the delivery, by a private contractor, of the Family Maintenance Enforcement Program*

## AUDIT PURPOSE AND SCOPE

The Family Maintenance Enforcement Program offers a free monitoring and enforcement service to all residents of British Columbia with a maintenance order from any court in Canada. It is administered by the Ministry of Attorney General and delivered by a private contractor.

We conducted this audit to determine whether the terms of the contracts established between the ministry and the contractor were consistent with the legislated program objectives, and to determine if the terms provided a reasonable basis for the ministry to monitor the performance of the contractor. We examined the adequacy of the processes used by the ministry to monitor compliance with the contracts; and we looked at two contracts covering the period June 1, 1988, to March 31, 1992.

We also examined the ministry's reporting procedures to determine if they result in adequate information about the program's performance being provided to the Legislative Assembly, the public and the ministry's clients. We reviewed the program's *First Anniversary Status Report* covering the period from province-wide inception of the program in January 1989 to January 1990, and the ministry's annual report for the year ended March 31, 1990. We did not review the 1991 annual report for the program because it was not finalized at the time of our audit.

We conducted our audit between July and September 1991. Our examination was performed in accordance with generally accepted auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

## OVERALL CONCLUSION

We concluded that both contracts are consistent with legislated program objectives and that they provide a reasonable basis for monitoring the performance of the contractor.

Although the initial contract was appropriate for implementing the program, we believe the renewal contract could have been more specific about the direct goals the contractor is

expected to meet, now that the program has been operating for some time. We also believe that maintenance payments received should be allocated between payment on current orders and payment on orders in arrears. This information, although it is not required by the contracts, would show how successfully the contractor is collecting arrears, and would provide a more comprehensive basis for monitoring the performance of the contractor.

We also concluded that generally the ministry has established reasonable processes for monitoring compliance with the contracts. However, to improve the monitoring process, we believe a regular audit of the contractor's records should be undertaken. This would increase assurance that the contractor is complying with process standards and is using the most appropriate enforcement techniques in a timely manner.

Finally, we concluded that more information should be provided by the ministry to the Legislative Assembly and the public so that they may form their own assessment of the effectiveness of the program.

## Family Maintenance Enforcement Program: An Overview

The basic principle behind the program is that children and spouses should receive the financial support that they are legally entitled to after separation or divorce. Before the program was established, the person entitled to receive maintenance payments, the creditor, had to take legal action against the person responsible for making the payments, the debtor, if payment was not made. Many creditors could not afford a lengthy court battle. This program offers a free monitoring and enforcement service to all residents of British Columbia who have a maintenance order or agreement from any court in Canada. Creditors may enroll in the program whether or not their maintenance order is in default.

The ministry describes the program's three aims as:

- to increase the number of debtors who pay their maintenance, and in so doing, change the general public's attitude so that willing payment becomes the rule, not the exception;
- to increase the emotional and financial stability of families by acting as the intermediary in collecting maintenance payments; and
- to transfer back to the debtor the financial responsibility for those creditors relying on publicly funded income assistance.

After a pilot project was completed in Vancouver, the *Family Maintenance Enforcement Act* was proclaimed in 1988. The Act gives the Director of Maintenance Enforcement, an employee of the ministry, the responsibility to "enforce maintenance orders filed with the Program when it is necessary and practicable to do so." The program, however, is delivered by Themis Program Management and Consulting Limited, the successful bidder for the initial three-year contract with the ministry. This contract, including subsequent amendments, totalled $11.4 million

($2.5 in year 1; $3.6, year 2; and $5.3, year 3). A renewal contract for the year ended March 31, 1992 (year 4) was signed by the ministry and the contractor in June 1991. This contract is similar to the initial contract and totals $5.3 million.

Once a creditor has enrolled in the program, the relevant debtor has to send the appropriate maintenance payments to the contractor. The contractor updates its records and immediately passes the money on to the creditor. If payments are not made by the debtor when due, the contractor takes enforcement action, first by notifying the debtor that payment has not been received and then, if necessary, by taking further steps to collect the money. For example, the contractor will make a legal claim on a portion of a debtor's wages and on amounts such as income tax refunds and unemployment insurance claims. The contractor also provides additional services, including preparing the affidavit of arrears, which documents past payments not made, obtaining certified copies of maintenance orders, and preparing enrollment information according to the requirements of other jurisdictions when the debtor resides outside British Columbia. These additional services were not initially included in the program, but were subsequently added by the ministry as the need for them became apparent.

The contractor monitored maintenance orders for more than 13,000 creditors during the year ended March 31, 1991. According to the ministry, $31.7 million in maintenance became due during that year on those orders. This does not include pre-enrollment arrears ( amounts owing at the time clients enrolled in the program) or amounts that became due in the first two years of the program but remained unpaid. The ministry reported it collected $17.2 million over the same period (although this amount does include collections on pre-enrollment arrears and arrears from the previous two years).

## The Contracts

### Meeting Legislated Objectives

We concluded that the terms of both contracts were consistent with legislated program objectives.

With the exception of tracing debtors, which the Act requires be done by a person employed under the *Public Service Act*, the contracts empower the contractor to carry out all of the procedures prescribed in the Act, including:

- to enroll, monitor and enforce maintenance orders on behalf of the director;
- to receive and redistribute maintenance payments; and
- to defend applications by debtors to change the terms of their maintenance orders.

### Providing a Basis for Monitoring

We concluded that the contracts, the policy and procedures manual, and the complaints procedures generally provide a reasonable basis for monitoring the performance of the contractor. However, the contracts only require, and the contractor is only able to provide, information on collections in total. We believe that the ministry would be better able to assess the contractor's performance and hence determine the effectiveness of the program if it had information on how well the contractor was collecting arrears.

1. To increase the rate of compliance with maintenance orders registered with the program.
2. To provide timely notification to debtors of default.
3. To increase the amount of payments in maintenance orders.
4. To increase the number of orders paid on time.
5. To maximise administrative enforcement remedies and minimise the use of court remedies

**TABLE 2.4**

Direct Goals in the Initial Contract[1]

*Source: Ministry of Attorney General*

[1] The renewal contract made minor changes to these goals.

The contracts specify the duties of the contractor, in essence all the services for which the contractor is responsible. The policies and procedures manual, which is approved by the ministry, provides guidance as to how to deliver those services. For example, it guides the contractor in making the appropriate choices of enforcement activities to follow. The manual was developed by the contractor, who regularly updates it, working closely with the ministry, to ensure the appropriateness of its contents. We found the manual well laid out, readable and up-to-date.

The contracts include general goals, described as "direct goals" (see Table 2.4). Some of the goals require the contractor to achieve increases in certain functions. The contracts do not, however, specify the extent of increases that the ministry expects, but merely indicate that increases are expected. We agree that a cautious approach to specifying increases was appropriate for the initial contract because of the many uncertainties involved in setting up a program of this complexity. We believe, though, that as the ministry gained experience about the program, the renewal contract should have included more specific targets for the direct goals.

The contracts also include some targets on the timeliness of various activities. For example, there is a target for how soon enforcement action should begin after payment default has occurred. There are also outcome targets such as the cumulative payment rate, which indicates that amounts collected should represent at least 55% of amounts due. The initial contract did not include a target for the length of time required to enroll a file; however, we noted that the renewal contract specified a target time of eight weeks. We believe that by setting targets such as these, the ministry has established an expectation of how efficiently the contractor should be delivering the program and what effect the program should be having on the collection of maintenance.

We noted that neither of the contracts we examined requires the contractor to track separately the collection of regular payments and payments on arrears. This means that details about how long arrears have been outstanding, and consequently how effective the contractor has been in collecting arrears, are not available. Conversely, information about what techniques are working best for the various debtor situations is not available to aid the ministry and the contractor in focusing

the efforts that provide the best payoff at the most economical price. It also means that the target cumulative payment rate of 55% of amounts due (described above) is not particularly meaningful. Payments will include amounts collected for arrears accumulated before and after enrollment in the program; the amounts due include only amounts becoming due since enrollment.

Program assumptions, such as the number of enrollments expected in each year of the contract, and the amount of court activity needed to enforce maintenance orders were included in the initial contract. There was also a provision for renegotiating the services or the contract price if actual activity was significantly different from the assumptions. This provision was necessary because of the many uncertainties that were present at the start-up of the program.

Under the reporting requirements of the contracts, the contractor must report monthly to the ministry key indicators such as cases enrolled, caseload per enforcement team, enforcement activity and payment rates. This information identifies trends and highlights unusual activity. The cases enrolled and payment rates provide the base for comparing the contract targets.

As well, the contracts provide for monthly financial statements of expenditures, quarterly reviews of costs in relation to actual and expected program assumptions, and annual audited financial statements. The ministry also has access to the financial records for audit purposes and, as the owner of the client files, has the right to access them as well. We believe that this information, when reviewed in conjunction with the contractor's level of activity in key areas such as enrollment, enforcement and payment provides a good basis for determining if the contractor's costs are reasonable.

The ministry recognized that the type of services to be provided were such that the nature and extent of complaints received from creditors and debtors would be a good way of indirectly monitoring the contractor's performance. Procedures were therefore established to handle complaints. As a result, the Director has three sources of complaints: those dealt with by the contractor; those that the contractor has not been able to resolve to the client's satisfaction or that have otherwise come directly to the ministry; and those received through the Office of the Ombudsman. The ministry has an elaborate system for documenting the complaints and how they were resolved. We concluded that the complaints system provides a reasonable basis for indirectly monitoring the performance of the contractor.

## Monitoring Contract Performance

Overall, the ministry's processes for comparing actual activity levels with program assumptions, and actual results with contracted goals and performance targets, provide a reasonable basis to monitor the performance of the contractor. However, the ministry has not regularly audited the clients' files, maintained by the contractor, to monitor directly the timeliness of activities or the appropriateness of enforcement choices being made by the contractor. Rather, it has relied on information supplied by the contractor and on its own reviews of clients' files in response to complaints. We believe that a regular audit of a sample of clients' files would strengthen the ministry's monitoring process, and we encourage the ministry to carry out its plans to implement this procedure in early 1992.

The ministry has played an active role in all aspects of the program. For example, it approved all policy and procedures to be used by the contractor, and it analyzed the reasons for, and worked with the contractor on the solutions to, the numerous start-up problems. It has also reviewed monthly statistics on enrollment, enforcement activity, and payment. As a result, the ministry's involvement in this complex program has provided a level of control similar to that in programs run within government.

### *Monitoring Actual Activity Levels and Program Assumptions*

During the first year of the program, the contractor was unable to enroll the expected number of clients, which resulted in a backlog of about 4,600 applications, according to the ministry. However, the ministry's records indicate that the cost of implementing the program during that first year was only $55,000 less than the anticipated $2.5 million. To determine the causes of the backlog and the reasonableness of the first year expenditures, the director interviewed the contractor's staff and ministry staff, gathered information and prepared analyses. The ministry also reviewed in detail the monthly contract expenditures prepared by the contractor. The results were published in an issue paper which described the complexity of the enforcement program and discussed the causes of and solutions for the problems encountered. The problems included enrollment backlogs, enforcement workload concerns, lack of computer capacity and client communication concerns. As a result of this work, the need for additional services was identified.

We concluded that these activities, in addition to the review of the audited statements of program expenditures, were adequate for the ministry to determine the reasons for the difference between the actual and the expected activity levels during that first year (see Figure 2.3), to monitor the validity of expenditures made by the contractor, and to determine the additional costs of providing the added services.

Since inception of the program, the ministry has maintained direct and frequent contact with the contractor. In addition, the ministry has handled complaints through the contractor, the clients directly, and the Office of the Ombudsman. It also monitors the program through membership on a joint committee with representatives from Family Court Services, Legal Services and the Ministry of Social Services, and as a member of the Family Law Justice Review.

Through information gathered from these sources, and through the analyses done when it prepared the issue paper mentioned above, the ministry has reworked the original program assumptions including expected enrollment. The ministry has monitored the actual activity reported by the contractor regularly since the inception of the initial contract in June 1988 to ensure it was reasonable and comparable to the revised assumptions. For example, the ministry's regular analyses of monthly statistics on enrollment activities (provided by the contractor) indicate that since early 1990 there has been little backlog, with enrollment activities generally taking about eight weeks to complete. When the ministry revised its original expected enrollment, the revised estimates proved to be approximately equal to actual enrollment. We concluded that these activities were adequate to provide reliable information which enabled the ministry to revise the original program assumptions and to monitor the

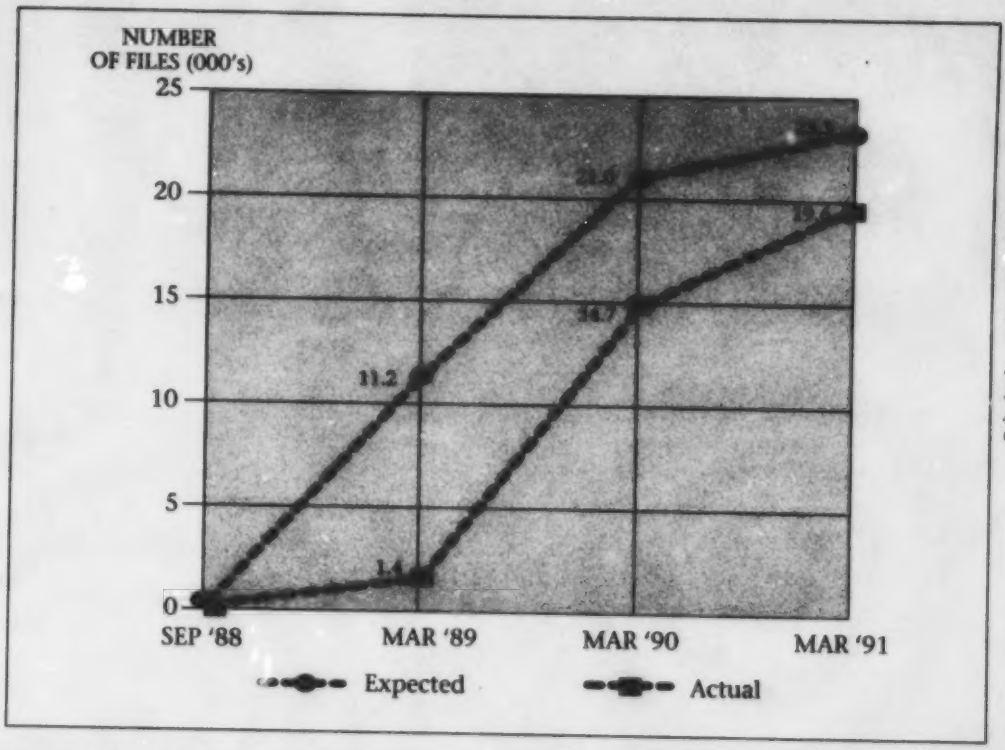



**FIGURE 2.3**

A Comparison of Enrolled Files Expected to be Handled (Program Assumptions) to Files Actually Handled

*Source: Ministry of Attorney General*

reasonableness of the actual activity being reported by the contractor.

### *Monitoring How the Contractor Achieves Contracted Goals and Performance Targets*

The goals established in the contracts do not require the contractor to meet specific targets, but rather to achieve increases in various key areas. For example, the contractor is expected to increase the rate of compliance with maintenance orders. The ministry monitors the performance against the goals by reviewing trends on a month-to-month basis, prepared from information received monthly from the contractor. The targets for the payment rate and the percentage of regular orders paid on time and in full are also monitored through the ministry's monthly analyses. We concluded that these monitoring activities, along with information gathered through contact with other sources such as the Family Court Services and the Ministry of Social Services mentioned above, provided a reasonable basis for the ministry to determine whether the contractor's reported activity levels were reasonable and whether contracted goals were being met.

Although targets for the timeliness of various activities are indicated in the contracts, the ministry has not established a formal means of measuring how well the contractor's actual performance compares with the targets. For example, the ministry does not have a direct way of monitoring the timeliness of starting enforcement action when maintenance is not paid. It is, however, able to monitor this indirectly through the complaint system. The complaint system also helped to identify the initial problem involving enrollment delays.

In the early days of the program, when most complaints centered around enrollment delays, the ministry and the

contractor determined that a centralized enrollment unit, specializing in that one task, was needed to ease the problem. We concluded that the ministry's analysis of complaints and their resolution provides a useful way for monitoring the contractor's performance, especially in areas where performance is not easily measured, such as the promptness of service that is being delivered. We believe, however, that more comprehensive monitoring could be achieved if the ministry not only reviewed complaints but also routinely reviewed the contractor's records (discussed further under "Direct Monitoring of Client Files").

The contracts contain a cost schedule which shows the management fee that will be paid and the total amount that the contractor will be reimbursed for operating expenses of the program for each year of the contracts. This means that if the contractor's actual operating expenses are less than the contract amount, only actual amounts spent are reimbursed by the ministry. Alternatively, if the contractor's actual expenses exceed the contract amount, then the ministry pays the contract amount and the excess is paid by the contractor from the management fee portion of the contract price.

In fact, the contractor's audited financial statements showed that a portion of the management fee had to be used by the contractor to cover a deficit in operating expenses for both 1990 and 1991. This payment arrangement, in conjunction with the expectation that goals, targets and activity levels in the contract will be achieved, helps ensure that the contractor cannot increase profits beyond the amounts intended in the contracts.

In addition to reviewing the monthly contract expenditures submitted by the contractor, the ministry receives audited statements at the end of each year. The audit opinion for each of the three years in the initial contract stated that the financial statements were prepared in accordance with the provisions of the contract. We concluded that the contracted arrangement for reimbursing expenditures separately from the management fee, in conjunction with the ministry's periodic review of contract expenditures and annual review of the contractor's audited financial statements, provides adequate information for the ministry to monitor the reasonableness of contract expenditures.

### *Direct Monitoring of Client Files*

An effective way for the ministry to monitor contractor performance would be to review client files maintained by the contractor. However, the ministry does not perform such reviews routinely. Its reviews have, until now, been restricted to reviewing files in response to complaints. Although this activity gives the ministry a first-hand look at the application of policies and procedures and an opportunity to determine if the appropriate enforcement action has been taken on a timely basis, we think a more comprehensive indication of the contractor's performance would be found through a random selection of files, audited on a regular basis.

We understand that the ministry has plans to implement such a program in 1992, and that it has run a pilot of 10 files as part of the planning process. We also understand that the ministry intends to collect information on the payment of arrears separately from regular payments for these files, to get an idea of how well the contractor is collecting arrears. We encourage the

ministry to implement these plans as soon as possible.

### *Other Monitoring Indicators*

Another method of monitoring is to compare this program to others like it elsewhere. The ministry did a survey of all the provinces and of three jurisdictions in the United States in July 1991, gathering a variety of information about program scope, types of enforcement used, number of staff employed, program cost, complaints procedures used, most frequent types of complaints, and program policies. The survey results indicated to the ministry that the scope of the enforcement methods being used, the problems it has experienced such as criticism of its communication policy, and the solutions it has formulated to correct these problems are similar to those of other jurisdictions.

## Communication of Program Results

### Reporting to the Legislative Assembly and the Public

After the first year of province-wide operation, the ministry published a status report — separate from its Annual Report — which was distributed individually to the members of the Legislative Assembly and to several thousand interested individuals and groups. It described how the program works, along with the activity levels for enrollment, enforcement and payment distribution. It also described problems encountered during the year, why they happened, and how they were being dealt with. It did not, however, provide information on the cost of the program or its success compared to its own performance objectives. Neither did it provide information about the effects of the program or the extent to which its goals were being met. We believe that such information about government programs is necessary for the Legislative Assembly to be able to discharge fully its responsibilities for controlling the public purse.

A comparison of the contract costs and other ministry costs of running the program against the amount being collected for maintenance payments would also indicate the costs and monetary benefits of the program. Additional information on the effect the program is having on reducing welfare payments would be informative, too. The ministry could also provide useful information about how well the contractor is collecting maintenance payments by comparing the contractor's actual collection rates to the target rates in the contract. For example, the ministry could compare how close the contractor came to meeting the target of collecting 25% of all regular orders paid on time and in full. Examples of other information which could be reported include the targets for enrollment and enforcement activity estimated in the contract, the actual activity that took place, and an explanation of the differences.

### Reporting to Clients and Other Stakeholders

From the inception of the program, the contractor, with the approval of the ministry, has restricted routine access to information by creditors and debtors because of the time commitment such access would have required of its staff. The contractor has provided an annual statement of payments made and arrears owing to all creditors and debtors, and revised the format of the annual statement, which was confusing to some, for 1991. We understand that the contractor has been working on

providing better day-to-day access to information that clients are requesting, through the development of an interactive telephone voice response system available in the near future. We also understand that brochures are being prepared which will be more explicit about the issue of communications. We encourage the ministry to implement these plans to clarify what information its clients and other stakeholders can routinely expect to receive.

*The Ministry of Attorney General is very pleased with the overall conclusion of the Auditor General's Report that the Ministry contracts for the Family Maintenance Enforcement Program (FMEP) "provide a reasonable basis for monitoring the performance of the contractor" and that the Ministry has established a "reasonable process for monitoring compliance with the contracts." The staff of Community Programs Division are to be complimented for their adherence to contract management policies and procedures.*

*We concur generally with the findings of the Auditor General's report but would like to comment on some of the findings as they occur in the text.*

*The audit focused on three levels;*

- *Do the contracts reflect the intent of the legislation?*
- *Does the contract provide a reasonable basis for monitoring?*
- *Is the ministry doing a reasonable job of monitoring?*

*In addition the audit reviewed whether adequate information has been provided to the Legislative Assembly, the public and clients so that they can assess the effectiveness of the Program.*

## THE CONTRACTS

### Meeting Legislative Objectives

*The FMEP was designed to be a contracted "mass enforcement" program which clients opted to be enrolled in. The Director of Maintenance Enforcement delegates all responsibilities under the Act, with the exception of the Maintenance Enforcement Information Search Unit (MEIS) to the Program. The Director monitors adherence to the contract, the development of policy and procedures and responds to complaints and Requests for Review formally submitted by clients.*

### Providing a Basis for Monitoring

*The Ministry is pleased that the Auditor General's Report concluded that the contracts, the policy and procedures manual and the complaints procedures generally provide a reasonable basis for monitoring the performance of the contract. We agree that as the Ministry has gained experience with the Program, any renewal of the contract should include more specific or direct goals. The contract for 1992/93 includes more direct goals and also reflects the ongoing development of the reporting tools used by the Ministry to monitor effectiveness of the Program. The quarterly Key Indicator Report provided by FMEP to the Ministry and to Treasury Board has been revised several times to reflect changing government requests for statistics.*

*The issue raised in the report concerning the separate reporting of arrears collected and regular maintenance payments made is more complex than it appears. The Program does report the overall change in arrears owed and regular payments collected. However, the legislation requires that when payments are made voluntarily or large sums are collected through*

*attachment of wages or interception of federal benefits, the monies must first be applied to regular, ongoing payments and payments in default before Court ordered arrears can be reduced. The calculation and reporting of this information is complex and not readily available in the FMEP data base however, the Director of Maintenance Enforcement and the Family Maintenance Enforcement Program will attempt to resolve this.*

### *Monitoring Complaints*

*Complaints received by the Program, the Ombudsman and the Director of Maintenance Enforcement are largely a natural outcome of the task itself. Child maintenance especially is a very emotionally charged issue. Children of a marriage must be protected from the hardships caused by the dissolution of a family if at all possible. Enforcement of that responsibility is even more difficult.*

*The majority of complaints dealt with relate to problems of communication between the Program and the clients and of enforcement issues. As the caseloads of individual Enforcement Officers increase, their ability to communicate with clients decreases and as enforcement activity increases, complaints from clients being enforced on increases.*

### *Monitoring Contract Performance*

*The Report concludes that the Ministry's processes for comparing actual activity levels with Program assumptions and actual results with contracted goals and performance targets is similar to that in programs run within government. The Director of Maintenance Enforcement in cooperation with FMEP has recently completed a preliminary file audit of 30 files in the Program and is developing a file audit process. This audit process will be the basis for an ongoing review of Program compliance with stated Policy and Procedures and with adherence with the Family Maintenance Enforcement Act. This file audit has been more difficult because the Program has been constantly developing over the pat three years but will become an ongoing assessment tool in years to come.*

### *Communication of Program Results*

*The Auditor General's Report comments on a number of indicators which could be reported on to assist the Legislative Assembly and interested parties in assessing the effectiveness of the Program. While these indicators are already collected on a routine basis they are only reported quarterly to the Attorney General and Treasury Board. Future Annual Reports will contain a section on statistical information.*

*The report points out that information on the effect the program is having on reducing welfare payments would be informative. While this is true, this data would be more readily available in the Ministry of Social Services' Family Maintenance Program.*

*The FMEP has set as a priority the review and clarification of its communications policy. It is expected that the Interactive Voice Response System will alleviate staff from dealing with some of the 12,000 calls they receive monthly by giving clients direct access to payment and enforcement information from their files.*

*The Ministry appreciates the thoroughness with which the Auditor General's staff reviewed the management of the FMEP contract. The findings and recommendations will be reviewed and incorporated in future development and management of the contract.*

## MINISTRY OF ATTORNEY GENERAL

# OFFICE OF THE PUBLIC TRUSTEE: INTERNAL CONTROL REVIEW

*A review of controls in the asset, receipt and disbursement financial systems for clients' affairs under the direct responsibility of the Office of the Public Trustee*

## AUDIT PURPOSE AND SCOPE

We conducted this internal control review at the Office of the Public Trustee (the Office) to assess its financial controls over receipts, disbursements and clients' assets.

We examined the control procedures used by the Office to protect the financial interests of its clients. These procedures are intended to ensure that:

- clients' assets are secured and monitored;
- clients' revenues are identified and recorded; and
- expenditures are made for authorized and appropriate purposes.

We did not review asset and investment management, such as investing policies, or the estates of deceased persons that were administered by the Public Trustee's representatives.

We conducted our review during the period, November 1991 to January 1992.

## OVERALL ASSESSMENT

The Office has recognized the major risks associated with its financial responsibilities for its clients' affairs and has designed adequate controls to address them.

We believe improvements are needed, however, in the consistent and timely application of certain controls, particularly with regard to reviews of clients' files, communication of financial policies and the provision of staff training.

We also believe stronger controls are needed in areas where staff are involved in both accounting for and physically controlling client disbursements.

A related concern which we encountered is the protection of financial assets of mentally incapable adults when the Public Trustee is unable to act during periods when the Office is applying for legal authority to administer clients' affairs.

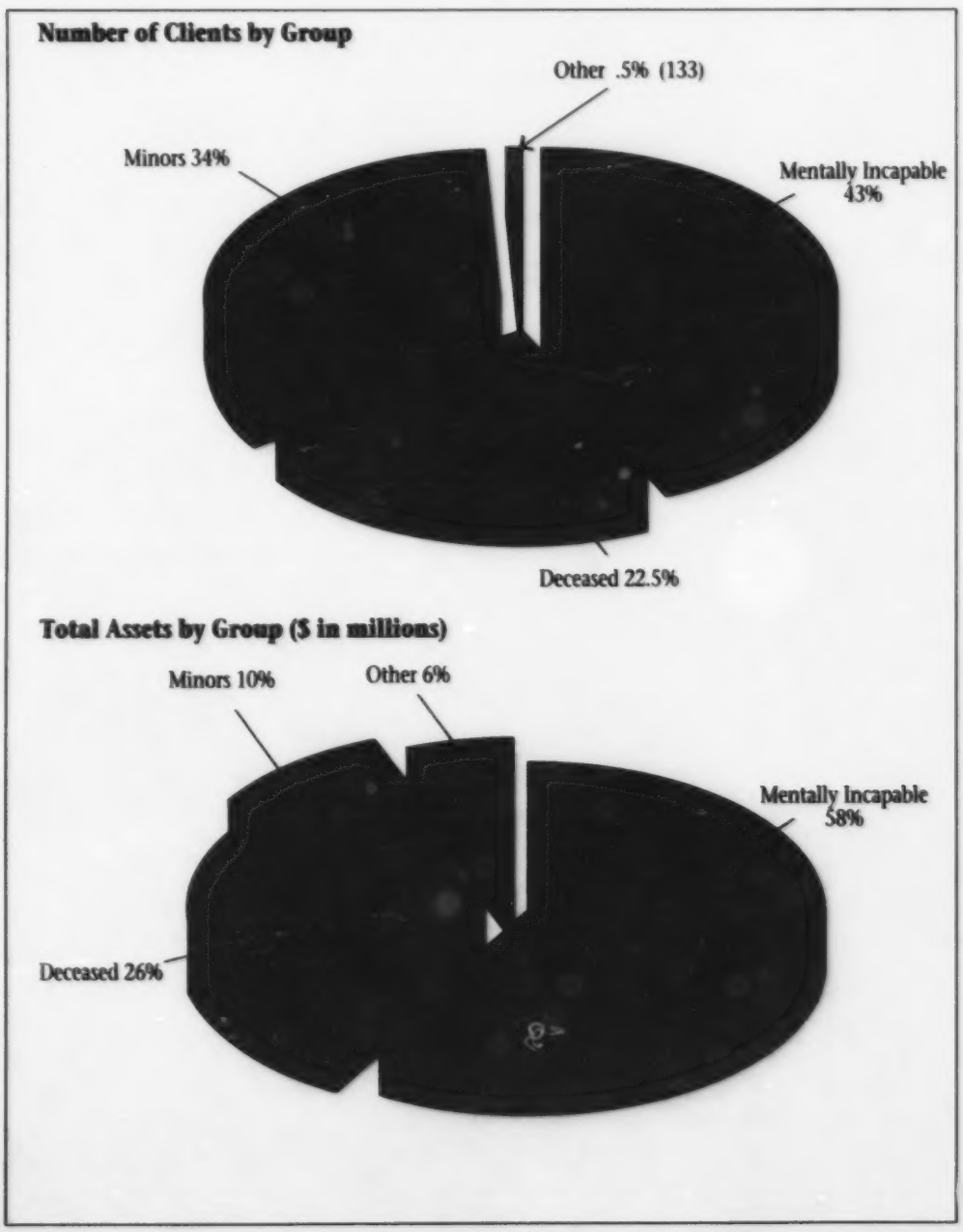
## BACKGROUND

Operating under provincial legislation, the Office of the Public Trustee acts to protect the financial interests and legal rights of minors, the mentally incapable, and deceased and missing persons when there is no one else willing and able to act on their behalf. Administratively, the Office accounts to the Ministry of Attorney General.

At November 1991, the Office had over 25,000 clients, of whom over 21,000 had assets under the protection of the Public Trustee. These assets totalled over $372 million (Figure 2.4).

**FIGURE 2.4**

A Comparison of Client Groups and Total Assets Held by Each Group at November 30, 1991



The Office has 112 staff. Since 1989/90, the Office has been self-financing. It charges fees and commissions for the services it provides, and from this revenue its expenses are paid. The Office's revenues and expenses for the 1990/91 fiscal year were approximately $8 million.

The duties of the Public Trustee are defined in the *Public Trustee Act, Estate Administration Act, Patients Property Act, Infants Act, Estates of Missing Persons Act,* and many other statutes. These responsibilities include:

- acting as custodian of clients' assets;
- managing clients' assets;
- pursuing legal claims on behalf of minors;
- investigating alleged financial abuse of minors and mentally incapable adults;
- protecting mentally incapable adults from abuse; and
- reviewing and monitoring others acting as trustees.

In performing these duties, the Public Trustee may become responsible for the individual and his or her personal wealth. This can be as simple as holding cash on behalf of a minor until the minor reaches 19 years of age, or as complex as acting on behalf of a client in all financial, personal, and legal affairs.

More specifically, the Public Trustee may be required to:

- identify, record and take into safekeeping a client's assets such as cash, jewellery, securities, cars, houses, and other personal effects including pets;
- receive and record all of a client's income, including pensions, rental income, and proceeds on disposal of assets; and
- make disbursements on behalf of clients for such items as home care, institutional care, pocket money, maintenance of a house, and most other day-to-day routine and non-routine living expenses.

The Office controls its clients' resources through a comprehensive system of computerized record files. These files are updated with information about resources received, such as inventories of possessions of new clients and income received on behalf of existing ones, and with details of resources expended on behalf of clients. The system provides transaction reports and asset balances which are used by Office staff for administering and controlling the financial affairs of their clients.

The Office's record files can be accessed from over 100 computer terminals located at the office in Vancouver and at other locations throughout the province.

## Audit Observations

### Authority to Act

The Public Trustee is legally empowered to protect mentally incapable adults and their assets only when authority to act has been obtained. During the period between the initial identification of potential clients and the receipt of authority to act, the Office may not necessarily have any legal responsibility for the potential clients' affairs. However, acting in the best interest of mentally incapable adults implies that the Office has a moral responsibility to obtain authority

to act quickly to minimize the risk of any unnecessary erosion of clients' assets.

Currently, the Office relies on the power of persuasion to protect potential clients' assets while it pursues legal authority to act. In most cases, this works. However, in some high-risk situations such as financial abuse, persuasion may be ineffective and the Office may be unable to protect the interests of those requiring help.

We recommended that the Office continue to investigate whether, in high-risk situations, additional interim powers can be obtained to protect its potential clients' interests until legal authority to act is granted.

### Documentation of Policies and Procedures

In the past two years, the Office has been developing policies and procedures for most aspects of the financial affairs of clients, and documenting them in manuals. These manuals, however, are still in various stages of development. As a result, the extent of the staff's knowledge of policy and procedural requirements varies widely. We believe that documented policies and procedures are a prerequisite to the Office's achieving a uniform standard of service in looking after its clients' financial affairs.

We recommended that the Office's policy and procedures manuals be completed, authorized, and issued to all staff as soon as possible. Adequate training should also be provided to ensure the staff apply the contents of the manuals consistently.

### Identifying Clients' Assets

The Office has reasonable procedures for identifying all clients' assets and liabilities.

While these procedures are not fully documented, staff understand and follow the process for identifying clients' assets. This process incorporates the use of questionnaires and checklists, and relies on knowledgeable and experienced staff for critical stages of the process.

### Recording Clients' Assets and Liabilities

Assets and liabilities are recorded on documents in clients' files but, for the Office to manage its clients and their assets effectively, we believe this information also needs to be recorded in the Office's central data base records. However, we found that not all assets and liabilities are being recorded in the Office's central records on a consistent and timely basis.

Clients' assets are recorded with information gathered from their files. The data may be recorded by a number of staff who have direct access to the system from numerous locations. A suitable level and frequency of subsequent reviews offers the only assurance that data has been completely, accurately, and promptly recorded.

However, these reviews are not up-to-date. From the clients' files we examined, the reviews were as much as two and one-half months behind the standard set in the Office's draft policies.

We recommended that the Office carry out its reviews of clients' files in such a way that all assets and liabilities are completely, accurately, and promptly recorded.

### Safeguarding Clients' Assets

The most significant portion of clients' assets is in the form of cash, invested with the Provincial Treasury.

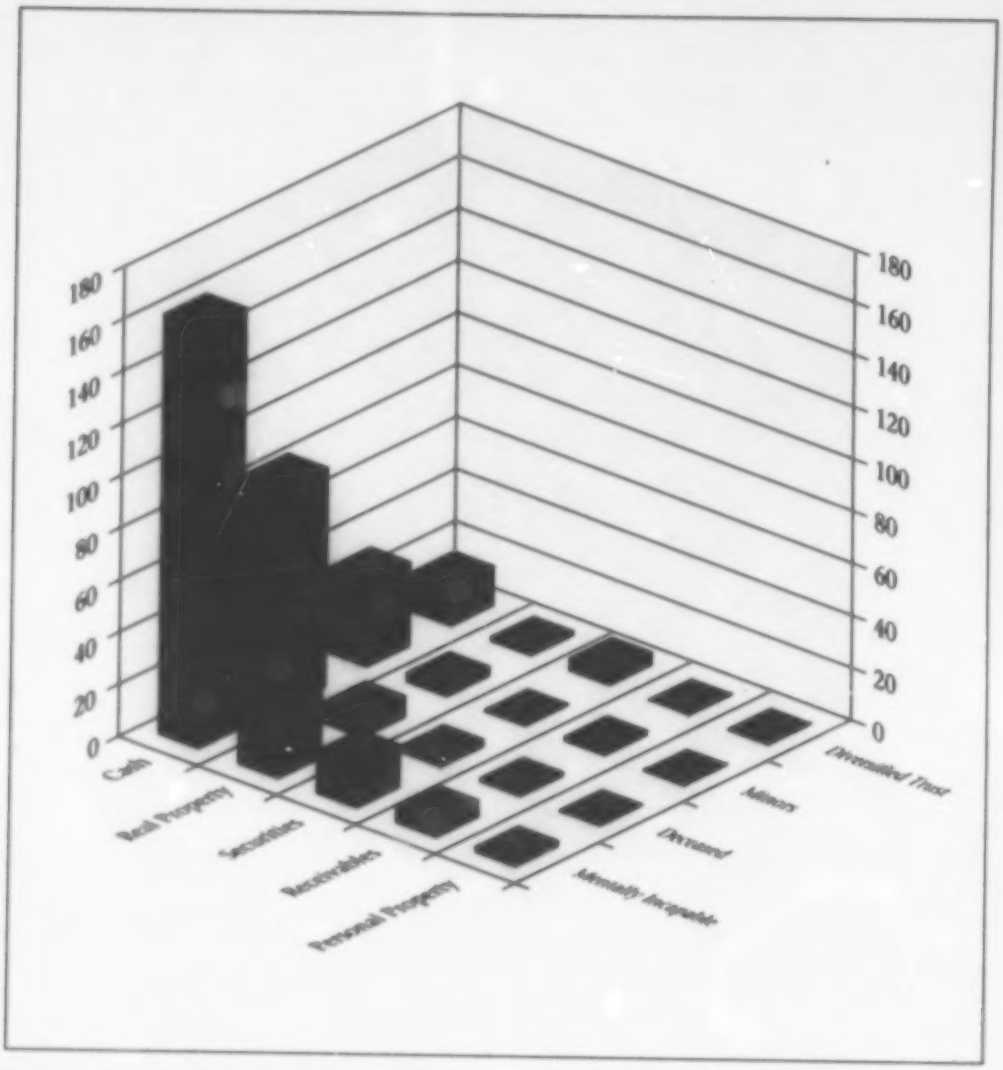



**FIGURE 2.5.**

**Distribution of Asset Types by Client Group at November 30, 1991**

**($ in millions)**

Figure 2.5 profiles the distribution of asset types by client group.

The controls over the safeguarding of cash are generally satisfactory. We noted, however, a few examples where the Office had failed to secure bank accounts promptly. We think this could increase the risk of inappropriate transactions being made before the Office secures the bank account. We believe the Office needs to ensure that its procedures for securing these accounts are carried out on a more timely basis.

Control procedures for securing, protecting, and controlling the movement of other assets were found to be adequate.

## Identifying and Recording Clients' Income

The Office has reasonable procedures in place to identify certain types of pension income and regular government income assistance for each client. The current computer system, however, is not able to record other sources of anticipated income, such as interest on

bonds. This limits the ability of the Office to predict its clients' entitlement to the latter sources of income to make sure that such income is received.

Accordingly, the Office relies on file reviews to detect sources of income that are not being received. As previously noted, though, the Office's file reviews are not always being carried out promptly. There is, consequently, a continuing risk that some income due to Office clients may not be collected and recorded.

### Making Payments on Behalf of Clients

The disbursement system of the Office must be capable of responding to its clients' unique circumstances. One of the Public Trustee's goals is "to maximize the mentally incapable person's independence and capacity, and to allow the person to remain in as much control of his or her financial and legal decisions as possible." With this goal in mind, the Office's disbursement system balances protecting the clients' assets from inappropriate use, with giving the client as open access to his or her own cash and other property as is prudent. In 1991, the Office made over 100,000 payments either to clients, or to others on their behalf, totalling over $90 million.

There are two main streams of payments made from clients' accounts: one, in which the Office receives an invoice for goods or services received by the client; and another in which the client, or the client's representative, seeks access to his or her own funds.

We reviewed controls over payments on the basis of invoices received and found them to be good.

For those payments where a client or a client's representative seeks access to the client's funds, the Office relies on its preaudit staff to ensure that there is adequate documentation to assess the reasonableness of the request. We found that not all payments were fully supported by required information. Since the Office's trust officers are acting in a fiduciary role on the clients' behalf, and may be held accountable for the propriety of disbursements made to or on behalf of clients or their representatives, we think it is very important that the reason for all disbursements be adequately documented and supported.

We recommended that the Office improve its monitoring of compliance with its draft policy, which requires adequate supporting documentation accompany the requisition for a cheque. We also stressed the importance of documenting all payments.

### Cheque Production and Issuance

Controls over most aspects of cheque production are adequate.

We made recommendations about assignment of responsibilities for those involved in the handling of documentation supporting payments, the initiation of cheques, and the distribution of cheques. We also believe improved evidence is needed to support cheque disposition when they are given directly to clients or their representatives.

### Distributing Clients' Assets

When the Office is released from its fiduciary responsibilities to a client, it must return assets held for that client to the client or his or her representative. The Office recognizes the high-risk associated with these transactions, and has established adequate controls over this process.

## General Computer Controls

We reviewed the Office's general computer controls, including those over systems development, acquisition, and maintenance, and assessed how incompatible duties were adequately segregated in the system service area. As well, we reviewed the controls over the complete, accurate, and timely processing of authorized transactions.

We found these general computer controls to be well established and operating appropriately.

*We welcome your review of the internal controls related to our administration of clients' assets, receipts and disbursements.*

*We are pleased with your overall conclusion that "The Office has recognized the major risks associated with its financial responsibilities for its clients' affairs and has designed adequate controls to address them". We do agree that improvements are warranted and we greatly appreciate your observations and suggestions. Based on your recommendations, we have acted immediately to implement the following changes:*

- *Procedures for monitoring compliance with our trust disbursement policy have been revised to ensure that all requisitions for payments are supported by appropriate documentation which clearly states the reasons for the disbursement on a client's behalf.*
- *Controls over the distribution of cheques not directly mailed to payees have been strengthened. Persons who initiate and approve payments no longer have access to the cheques produced. The final disposition of these cheques is verified by a person who has no involvement in the payment initiation or authorization functions.*

*We concur with your assessment of the Public Trustee's need for interim powers to protect the financial interests of potential clients prior to receiving full legal authority to administer their affairs. This matter is being addressed and will be resolved with the introduction of new adult guardian legislation in the spring of 1993.*

*The Office is completing a three year restructuring initiative. The full implementation of a new organization structure along with revised operating systems, policies, procedures and standards will largely resolve the other operating issues raised in your report. We will implement these remaining changes at the earliest opportunity, within the constraints of available resources.*

*We would like to thank your staff for their thorough review of our internal controls and for their thoughtful recommendations.*

## MINISTRY OF ATTORNEY GENERAL

# LIQUOR DISTRIBUTION BRANCH: GENERAL COMPUTER CONTROLS

*A review of the adequacy of the business systems controls in the Liquor Distribution Branch*

## AUDIT PURPOSE AND SCOPE

We conducted this review to assess whether the Liquor Distribution Branch (LDB), also called the Branch, has adequate business systems controls to ensure the Branch develops and maintains business systems according to standards for government financial systems.

Business systems controls consist of general controls and application controls. This report deals only with general controls.

We conducted our audit between October and December 1991. Our examination of control standards was based primarily upon the Canadian Institute of Chartered Accountants' research study, Computer Control Guidelines.

We obtained our information by observation, examination, testing, interviews with LDB staff and British Columbia Systems Corporation(BCSC) seconded staff, and a review of various procedure manuals. As well, BCSC's Data Security Services provided us with reports on the logical access controls over the LDB's business systems.

## OVERALL CONCLUSION

The Branch has made progress in improving the organizational structure of the Information Services Department (ISD) and the way the ISD acquires, develops and maintains business systems. However, there are still several areas where controls over the activities and resources of business systems development, processing and support functions can be strengthened. The Branch has recognized the need for improvement in these areas, and is working on several initiatives which, once completed, will lead to stronger controls.

## IMPORTANCE OF BUSINESS SYSTEMS CONTROLS

Business systems controls form part of the internal control system at the Branch. This system of internal control helps management conduct business in an orderly and efficient manner.

### GENERAL CONTROLS

General controls are controls over the activities and resources of the business

systems development, processing and support functions. They include segregation of incompatible functions and business system security activities. They also include control procedures that provide security and control over the computer programs, data, and hardware facilities. These all reside within the business systems processing, development, and support environment.

### Responsibility for Control

Control of business systems is the responsibility of senior management. The Systems Steering Committee (SSC), which consists of senior management of the Branch, sets the overall policies, and assigns responsibilities for information, its processing and use.

The ISD has been assigned the responsibility to assist the Branch in using information technology strategically to meet its business requirements. In June 1991, the ISD prepared a "Business Systems Operational Plan" that was presented to and approved by the SSC. The plan addresses the ISD's management structure, resources and projects to be undertaken in the short term as well as the development and acquisition activities necessary to achieve the business system objectives of the Branch.

It is through this plan, and with the assistance of the internal audit department, that the committee monitors the business system activities of the ISD. Internal audit has conducted several reviews of specific issues. Their continued involvement is critical in certifying controls throughout the systems development life cycle.

User management is responsible for providing the ISD with information critical to the development and acquisition of new business systems and changes to existing systems. It is also responsible for the design and monitoring of control procedures. We noted that no written policies had been issued to the user groups outlining their involvement in these areas. We recommend the establishment of a Branch-wide manual containing the Business Systems Operational Plan and policy statements outlining the role and responsibilities of user management.

### Business System Development and Acquisition

Effective control over the business systems development, acquisition and change processes assists the Branch in ensuring that:

- the business system provides for the Branch's information needs and will work;
- the system development will be completed on time and within budget; and
- users of the new system will be able to rely on the programmed logic and calculation functions of the system.

Business systems selected should meet the needs of the Branch. In order to develop and acquire the appropriate systems a clearly established process needs to be in place. This process should include procedures to:

- ensure the goals and objectives of the Branch are being met;
- determine costs, savings and benefits of the proposed system;
- ensure the system meets the needs of the users; and
- adequately test the system prior to implementation.

The SSC provides a forum for senior management to approve the plans for

business systems development and acquisition in accordance with the goals and objectives of the Branch. We noted, however, that the process in developing these plans needs strengthening.

Advisability studies which gather information on existing systems, procedures and requirements and identify the anticipated costs, savings and benefits of proposed systems are inconsistently prepared. The users interviewed commented on the inconsistent approach used by the ISD and the lack of involvement by the users throughout the process. As a result, systems may be acquired that support the anticipated needs of the user group instead of the real needs.

We recommend that advisability studies follow a consistent approach. This approach should include an initial cost/benefit study of the new or changed business system done in coordination with the user group. When approved by the SSC, user management should identify the requirements for the new system in a "User Requirements Report" and, in conjunction with the ISD management, approve the business system design specifications. The ISD should use appropriate technical and business selection criteria in the evaluation of the proposed system and the cost, savings or strategic targets that were expected should be reaffirmed at the completion of each significant phase in the development.

## Standards and Methodologies

A controlled approach to systems development and acquisition is necessary to ensure that activities proceed in an orderly fashion. We noted that the ISD did not consistently follow appropriate standards in all systems development and acquisition projects. The result was an inconsistent approach among projects. As well, there was a lack of a clearly defined methodology for project management. As a result, project leaders did not use a consistent approach in tracking project progress. Users also indicated that there was considerable inconsistency in the skill level of project leaders and staff from project to project. The ISD management has recognized the lack of standards, the weakness in project management and the variance in the skill base of its staff. As a result a consultant has been hired to address the issue. His report findings are due the end of February 1992.

We recommend the ISD continue to address these critical issues in conjunction with the consultant's report and implement solutions as soon as possible. As well, we recommend the ISD conduct a user satisfaction survey after completion of major projects in order to provide meaningful input into staff training and supervision needs.

We also noted that the Branch did not have formal standards for the development and acquisition of microcomputer systems. As a result, microcomputer based business systems may not ensure the complete, accurate, and timely processing of the business activities of the Branch. Users may select ineffective solutions to problems or provide inadequate documentation of programs which makes maintenance of the system difficult.

We recommend that policies and procedures governing the use of microcomputers and standards for the development and acquisition of microcomputer systems, similar to those for mainframe systems, be drafted and submitted to the SSC for approval. Once approved, these policies and procedures should be issued to all users in a Branch-wide manual.

### Implementation

Implementation of new systems involves the interaction of users and the ISD team. A clear assignment of responsibility for system implementation will serve to ensure effective coordination of the various activities. Standards should be established and an approved implementation plan should be used to measure progress.

We noted that, although the responsibility for the implementation was assigned to the project leaders, the standards they were using for implementation were out of date and inconsistently applied from project to project. As well, there were no implementation plans prepared by the project leaders to measure their progress. We are aware that the consultant will be addressing these problems in his report, and we recommend the Branch take immediate action to correct the deficiencies.

### Maintenance

The effective and efficient maintenance of the business systems of the Branch is necessary in order to maintain and modify systems so that they can meet user needs on an ongoing basis. The ISD has implemented procedures that ensure only authorized, tested and documented changes to business systems are accepted into production. However, there is no automated process in place which would allow management to record and track changes to the systems. The use of an automated librarian system would allow management to trace changes to the supporting documentation.

We noted that, although change requests are recorded on work orders that are signed off by the users, an assessment of the impact of the change was not always documented. Such an assessment would identify the risk inherent in the change, especially if it was unsuccessful, and would identify the training required to prepare people for the change.

As well, we noted that a cost/benefit analysis was not prepared by the user department prior to the change request nor were the cost of the changes charged back to the user department. We recommend that users be held accountable for the cost of changes in order to encourage the careful consideration of the necessity to expend the resources required for the change.

## Business Systems Processing

### Matching Resources to Requirements

User demand for information processing resources is the principal factor in determining the level of processing resources required by the Branch. ISD needs to ensure that they match information processing resources to present and projected user demand. We noted that the ISD has defined their responsibility for the provision of information processing services to users and is attempting to match business system resources to present and projected demand. However, users have not communicated their projected processing requirements to the ISD on a timely basis in order to facilitate this planning. We recommend that service level agreements with the user groups be established. This will enable these groups to better understand the nature and level of services to be provided by the ISD and provide for better interaction between the two groups.

The acquisition of information processing hardware and systems software facilities represents a considerable investment by the Branch.

The Branch has procedures for the justification and approval of these facilities. However, we noted that not all significant hardware and systems software purchases and upgrades are followed up with an independent post-implementation review. We recommend that post-implementation reviews be performed by internal audit or an independent third party to ensure that any problems are identified and steps are taken to avoid similar problems in the future.

### Controlling Use of Resources

The ISD is responsible for ensuring that controls are present that promote the efficient and effective use of resources within business systems processing. They prepare annual processing budgets, and on a monthly basis, compare actual costs to budget. As well, they approve all billings received from BCSC. We believe this approval process to be inappropriate since it does not provide for an independent review of the accuracy and validity of the billings. This is because those responsible for approving the billings are contracted employees of BCSC.

We recommend that BCSC billing approvals be delegated to appropriate persons within the Finance Division, such as the Finance Systems Manager, in order to provide independent assurance as to the correctness of BCSC billings.

### Scheduling Resources

The ISD follows a daily job schedule to ensure all application processing is completed. A record of all problems and the follow-up action taken is recorded on a "problem action report." A weekly and monthly summary is prepared and distributed to ISD management.

We noted, however, that users were not held accountable for the resources used by them nor were the users concerned about the cost of the services requested. These costs were considered to be within the budget of the ISD and therefore not the user's concern. We recommend that a chargeback system be implemented that charges the user for costs directly attributable to them. By holding the user accountable for the resources consumed, the Branch will promote the efficient use of those resources and will assist in the forecasting of future requirements.

## Recovery Security and Contingency Planning

### Business Systems Processing

Interruptions to business systems processing may be minor (because of a power surge) or major (such as loss of the hardware facilities, or part of the facilities, due to fire, earthquake or other disasters). It is important in all instances that essential programs, data and records can be recovered on a timely basis, so that processing can resume with a minimum of delay.

We noted that for minor interruptions to daily processing, the Branch has established and documented recovery and restart procedures.

For major interruptions, exposure and risk identification has not been documented. As a result the Branch has failed to identify and prioritize those critical functions which would impact upon the day to day operations of the Branch if an interruption occurs.

We also noted that the service agreement with BCSC specifies that the ISD is responsible for backup and recovery of the Branch's business systems and data. As well, the ISD is responsible for determining and maintaining the backup and recovery

procedures. Although this requirement was identified in March 1991, it remains substantially incomplete.

We recommend that the Branch complete a review of data backup and recovery procedures to ensure that it can recover its user applications and data independently. As well, we recommend that all future systems contain backup and recovery procedures as an integral part of the development process.

### User Activities

While a significant responsibility for the preparation and testing of backup and recovery plans lies with business systems processing, user management has a similar and equally important responsibility to minimize the effect on users of an interruption in operations. This involves preparation of their own backup and recovery plans, and integration of these plans with those of the ISD.

We noted that users have not developed a business recovery plan nor have they, in conjunction with ISD, identified the key information required for backup in order for them to resume processing after an interruption occurs.

We recommend that the Branch prepare a recovery plan for users which, in conjunction with the ISD plan, will allow users to resume operations in the event of an interruption. The SSC should review the integrated plan to ensure critical business systems processing activities can be recovered within an acceptable time frame.

*On behalf of the Liquor Distribution Branch, I wish to acknowledge the report on general computer controls which you recently forwarded. We welcome the audit, its findings, and the many useful recommendations of the report. The LDB is pleased to note the recognition in the report of the progress made in improving the management of information systems and technology together with the efforts underway to improve project management and systems development methods. These efforts will receive the continued support of management.*

*On the specific recommendations of the report:*

1. *"We recommend the establishment of a Branch-wide manual containing the Business Systems Operational Plan and policy statements outlining the role and responsibilities of user management."*

   *The LDB agrees. A policy to this effect will be tabled for the approval of the Systems Steering Committee by July 1, 1992. The policy will be recorded and circulated as per the LDB's normal policy practices. While the strategic and operational plans are too large to include in the policy manual, these plans will be referenced and will be widely available.*

2. *"We recommend that advisability studies follow a consistent approach."*

   *The LDB agrees. The LDB has reviewed its project management practices and plans to undertake a similar review of systems development methods. This review will conclude by November 1, 1992. It is hoped that the recommendations of this review can be substantially implemented by March 31, 1993.*

*An objective of the review will be a consistent approach to such vital elements as business cases, requirements statements, and advisability/feasibility reports.*

3. *"We recommend the ISD continue to address these critical issues in conjunction with the consultant's report and implement solutions as soon as possible. As well, we recommend the ISD conduct a user satisfaction survey after completion of major projects in order to provide meaningful input into staff training and supervision needs."*

   *The LDB agrees. As above the LDB has undertaken to review and improve its systems development and acquisition methods. A requirement for the review of the performance of the project team will be included in this review.*

4. *"We recommend that policies and procedures governing the use of microcomputers and standards for the development and acquisition of microcomputer systems, similar to those for mainframe systems, be drafted and submitted to the SSC for approval. Once approved, these policies and procedures should be issued to all users in a Branch-wide manual."*

   *The LDB agrees. The LDB recognizes that microcomputers will play an ever increasing role in its information systems and technology infrastructure. As such, many of the controls and standards applied to other forms of computing must be adapted and applied to microcomputers. These issues have been brought to the attention of the Systems Steering Committee for action.*

   *The LDB is particularly concerned about the integrity and security of data and applications resident on microcomputers. The LDB plans to provide a centralized back-up and recovery facility for head office microcomputers. Approximately half of the head office computers will be included in fiscal 92/93 with the remainder covered the following year.*

5. *"We noted that, although the responsibility for the implementation was assigned to the project leaders, the standards they were using for implementation were out of date and inconsistently applied from project to project. As well, there were no implementation plans prepared by the project leaders to measure their progress. We are aware that the consultant will be addressing these problems in his report, and we recommend the Branch take immediate action to correct the deficiencies."*

   *The LDB agrees. The LDB has already taken action regarding improved project management practices. All projects now require a formal project charter which details the rationale, objectives, deliverables, scope, and milestones of the project. The completion of a detailed project plan including an implementation plan is the earliest milestone of a project.*

   *The LDB will continue to review and implement the recommendations of the consultant's report on project management with the intent of having substantive implementation of the report by November 1, 1992.*

6. *"We recommend that users be held accountable for the cost of changes in order to encourage the careful consideration of the necessity to expend the resources required for the change."*

   *The LDB agrees. The LDB plans to implement a strategy of release control for all non-emergency systems maintenance. These releases will be treated as formal projects and thus*

*subject to the same controls as other projects.*

7. *"We recommend that service level agreements with the user groups be established. This will enable these groups to better understand the nature and level of services to be provided by the ISD and provide for better interaction between the two groups."*

   *The Information Services Department plans to formally document its products and services. This document will form the basis for the establishment of the appropriate service levels. ISD plans to table this document at the Systems Steering Committee by October 1, 1992.*

8. *"We recommend that post-implementation reviews be performed by internal audit or an independent third party to ensure that any problems are identified and steps are taken to avoid similar problems in the future."*

   *The LDB agrees. The requirement for post-implementation reviews for significant projects will be identified in the review of systems development methods.*

9. *"We recommend that BCSC billing approvals be delegated to appropriate persons with the Finance Division, such as the Finance Systems Manager, in order to provide independent assurance as to the correctness of BCSC billings."*

   *The LDB agrees. A member of the Finance department will approve the BC Systems billings."*

10. *"We recommend that a chargeback system be implemented that charges the user for costs directly attributable to them. By holding the user accountable for the resources consumed, the Branch will promote the efficient use of those resources and will assist in the forecasting of future requirements."*

    *While the LDB agrees that IS costs need to be well understood and tied to corresponding benefits, in the LDB's opinion a detailed chargeback system may not be appropriate for the LDB. The LDB has found that such systems are onerous, lead to many false economies, and do not necessarily support the strategic nature of those information systems which cross organizational boundaries. The LDB also observes that many of the most effective information systems programs in government do not rely on detailed chargeback.*

    *The LDB plans to continue with the approach started this fiscal year of reporting to the Systems Steering Committee on the costs of information systems. We plan to supplement the current allocation of costs by department with management control information on individual application systems. This information will be made available on a monthly basis for review by the Systems Steering Committee. We also plan to more widely publicize the costs of information systems through an education program for middle management.*

11. *"We recommend that the Branch complete a review of data backup and recovery procedures to ensure that it can recover its user applications and data independently. As well, we recommend that all future systems contain backup and recovery procedures as an integral part of the development process."*

    *The LDB agrees. A high level review of data, resident on BC Systems data centres and on the LDB's in-house minicomputers has already been*

*conducted. Microcomputers were outside the scope of these studies.*

*Through its Information Systems Strategic Plan the LDB has recognized the need to go beyond simple data recovery to a more comprehensive approach to disaster recovery and business continuity planning. During fiscal 92/93 the LDB will develop a strategy for implementation in subsequent years.*

*The inclusion of disaster recovery planning (DRP) as an integral part of the systems development process is vital and the LDB will include this requirement as part of the review of systems development methods.*

12. *"We recommend that the Branch prepare a recovery plan for users which, in conjunction with the ISD plan, will allow users to resume operations in the event of an interruption. The SSC should review the integrated plan to ensure critical business systems processing activities can be recovered within an acceptable time frame."*

    *The LDB agrees that disaster recovery plans must go beyond information systems. We will include this requirement in our formulation of DRP strategies.*

## MINISTRY OF ENVIRONMENT, LANDS AND PARKS

# PURCHASE OF ENVIRONMENTAL LABORATORY SERVICES

*A review of the financial management of the service agreement for environmental laboratory services; the ministry's quality assurance program; and the ministry's achievement of value for money from the service agreement*

## AUDIT PURPOSE AND SCOPE

We conducted this audit to assess the ministry's financial management of the service agreement entered into with Zenon Environmental Inc. (Zenon), the company that purchased the government's environmental laboratory when it was privatized in 1989. We also reviewed the ministry's quality assurance program to determine whether the weaknesses noted in our previous audit, performed in 1989, have been addressed, and evaluated the quality of services provided by Zenon. As well, we assessed whether the ministry is getting value for money from the service agreement.

Our audit was carried out primarily between September and December 1991. The examination was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants and included such tests and other procedures as we considered necessary in the circumstances.

## OVERALL CONCLUSION

The ministry has had ongoing problems with the financial management of the service agreement with Zenon. Not until the summer of 1991, half way through the life of the contract, did the ministry introduce a system to ensure that it pays only for services received and that it pays the correct amount for those services. In our opinion this system is designed appropriately. However, because the ministry has not done a follow-up review of the new system in the regions since its implementation, it still does not know whether the controls are working as intended.

Since our last audit the ministry has made many significant improvements to its quality assurance program and has generally addressed the weaknesses we identified. We believe that the design of the current program is adequate. However, the ministry has not been able to implement the

program fully because it has not allocated sufficient resources to it. Although the quality of services received from Zenon by the ministry has improved, the ministry's quality assurance tests indicate that significant further improvements are required in Zenon's laboratory performance before the services received meet all the ministry's standards.

We also concluded that the ministry is not getting value for money from this contract. There are several reasons: restraints imposed on the ministry by the contract; slow recovery of amounts owing by Zenon; higher than market prices being paid for the services; and significant staff resources being devoted by the ministry to managing the contract.

## Background

As part of the government's privatization program, on January 6, 1989, the Ministry of Environment sold its environmental laboratory to Zenon Environmental Inc. It also entered into a service agreement with Zenon to provide laboratory analyses and other general laboratory consulting services in support of the ministry's Air and Waste Management Programs.

Under the terms of the agreement, the ministry must pay Zenon a minimum of $2.8 million per year for a five-year period ending December 31, 1993. The agreement requires minimum monthly payments of $198,333, quarterly payments of $700,000, and yearly payments of $2.8 million. The ministry must make these payments even if the services have not been requested. If the required minimums are not reached based on services provided, the ministry must make adjustment payments.

During the fiscal years ending March 31, 1989, 1990 and 1991, ministry payments to Zenon were, respectively, $3,185,617, $3,199,163 and $3,163,535. Included in these amounts were adjustment payments of $180,000 in 1989 and $60,348 in 1991.

During 1990 the ministry noted that a number of important issues were not addressed in the original contract. After negotiating with Zenon throughout 1990, it reached an agreement in December with the company on the outstanding issues. The amending agreement was not signed, however, until October 9, 1991.

The amending agreement includes changes to fee and expense calculations, additions to and clarifications of the quality assurance process, and changes to the process by which Zenon must repay amounts owing to the ministry.

## Financial Management of the Contract

From the outset of the contract, the ministry has had problems establishing proper financial controls to ensure that it is only paying for services received and only making payments in accordance with the contract. As a result of concerns about the validity of some of Zenon's charges, the ministry asked the Internal Audit Branch of the Comptroller General's Office, Ministry of Finance and Corporate Relations, to audit the adequacy of support for the service, time, and materials charges invoiced to the ministry for the period from January 6, 1989 to March 1990.

The audit concluded that the invoices and their supporting details were not always complete, accurate, valid, or

timely. Some of the invoices contained clerical and other errors and were not in accordance with the contract. Although the auditors did not determine the full extent of the errors, they recommended improvements in contract administration and in financial controls relating to services purchased. They also recommended renegotiation of the contract to address the areas noted in the audit that were not dealt with in the contract.

Acting on these recommendations, the ministry took several steps. It appointed a contract administrator to be fully responsible for the financial management of the contract. It also agreed with Zenon to contract the services of an independent accounting firm to audit the adjustments required as a result of the amendments to the service agreement, covering the period from January 6, 1989 to November 30, 1990.

The firm was also requested to render an opinion to the ministry and Zenon as to whether the ministry might rely on Zenon's systems to generate invoices accurately and according to the terms and conditions of the contract for services. The accounting firm reported that Zenon had suitable internal control procedures at the time of their review, March 11, 1991.

In 1990 the ministry also contracted with a consultant to provide accounting advice on the Zenon contract. Specifically, the consultant was to assist in implementing the recommendations of the Internal Audit Report and in establishing decentralized regional procedures, to ensure that goods and services can be verified where received.

Based on the consultant's recommendations, the ministry put into place a new laboratory services accounting system in the summer of 1991. A training session was held in the regions at the same time. In our opinion, the design of the system developed and implemented in the regions is adequate to ensure that the ministry pays only for services received and only the correct amount. However, the ministry has not performed a review in the regions to determine if the controls are operating. It therefore does not have assurance that the controls are working as intended.

All of the above problems indicate that the ministry must remain diligent in managing this contract.

## The Ministry's Quality Assurance Program

During 1989 we examined how the Ministry of Environment ensures the quality of environmental testing after having privatized its laboratory. We found that the ministry's quality assurance system was not adequate because it did not include all of the procedures required of a sound monitoring system. Furthermore, the procedures that had been implemented were not operating satisfactorily.

In this audit we reviewed how the ministry addressed the weaknesses we noted in its quality assurance program in our previous audit. Specifically, we considered whether the design of the ministry's current quality assurance process is adequate and whether it is working as intended. We also examined the results generated by the program on Zenon's performance.

We found that the ministry's current program has addressed the weaknesses we noted before and, in our opinion, the design of the quality assurance program is now sound.

The main weakness we had identified in our previous audit was that the

ministry did not have a comprehensive quality assurance program. Components important to such a program were missing, including reference samples, blind samples, and systems audits. Instead the ministry was relying on split samples and interlaboratory comparisons.

With reference samples, the composition of the sample tested is known beforehand. The results of the laboratory analysis are compared to the predetermined composition to determine the accuracy of the laboratory's testing procedures. When blind samples are used, the composition of the sample tested is known to the auditor beforehand but, unlike for reference samples, the laboratory is unaware that the sample being analyzed is a quality assurance sample.

Systems audit procedures include on-site inspections to ensure that the correct methods as specified by the ministry are in place and are being used. Interlaboratory comparisons are designed to evaluate the quality of one laboratory's analytic techniques against those of others.

The ministry's current program now includes all the components needed in an adequate quality assurance program. However, we found that not all of the components of the program are carried out to the extent required by the ministry. As a result, the ministry does not have adequate assurance that the laboratory services it purchases from Zenon meet the ministry's standards.

The extent to which the individual program components are carried out is described below.

Reference samples with known compositions are purchased from commercial laboratories and provided to Zenon periodically to be analyzed for specific parameters. We found that this part of the program was working adequately.

At the time of our previous review, the ministry's quality assurance program did not include the use of blind samples. In the current program,

they are a major part in monitoring the quality of Zenon's work. Nevertheless, we do not believe they are used extensively enough in areas such as organics and pesticides. We think the current program should be expanded so that a wider range of sample types can be submitted for a wider variety of analyses.

While the results of blind samples indicate that the quality of the data received by the ministry from Zenon has improved measurably, we also think that there is still room for substantial improvement before the data can be consistently reliable. Recent results indicated there were problems with certain types of analysis. Only 85-90% of the blind audit data reported in 1991 meet acceptable ministry standards of quality. The ministry considers results under 90% to be unacceptable, based on generally accepted standards of laboratory practices.

Although the ministry originally planned to have one of its staff located at Zenon on a full time basis to perform systems audits, this was not done. The ministry decided instead to carry out this part of the quality assurance program by visiting Zenon's facilities monthly. During 1991, however, the ministry only managed to make three visits to Zenon. Lack of staff was given as a reason for not carrying out more frequent visits.

Zenon has taken part in interlaboratory studies. The results of these have shown that Zenon has the capability to produce data that meet ministry standards of quality.

To be able to carry out the requirements of its quality assurance program fully, we think the ministry should determine the staff resources required and ensure that it has allocated sufficient staff to the program.

## Getting Value for Money

For several reasons, we concluded that the ministry is not getting value for money from its contract with Zenon.

The ministry has not always submitted the volume of tests required by minimum service levels set in the service agreement. Consequently it has had to make a number of adjustment payments. These amounted to $180,000 in 1989 and $60,348 in 1991.

The minimum requirements also impose restraints on the operations of the ministry because the flow of ministry's work is seasonal and the contract requires work to be evenly distributed throughout the year. The interpretation of the minimum requirements has led to many disputes between the ministry and Zenon. There is currently a dispute about whether an excess of the quarterly minimum payments can be carried over to the next calendar year. This has gone to arbitration. At the time of our audit, the matter had not been resolved.

The ministry has incurred, and continues to incur, significant costs for managing the contract. Ministry staff spend considerable time administering the contract, dealing with disputes with Zenon, and negotiating amendments to the contract.

### Recovery of Amounts Owing to the Ministry

Previous audits have shown a series of overpayments that the ministry should have recovered. We found that the recovery of these overpayments has been very slow.

In our previous audit we noted that the government paid adjustments of $180,000 to Zenon for which no services were received. Following our audit, the

ministry and Zenon signed an agreement that would allow the ministry to claim the costs of future work against this amount. When amendments to the contract were agreed to, the method for recovering this amount, as noted below, was changed.

During 1991 the ministry made additional adjustment payments of $60,348, as required by the contract. This amount will not be recovered.

At the time the laboratory was transferred to Zenon, completed work and work in progress were also transferred to Zenon. Zenon billed the ministry $152,196 for this work although the contract did not include this as part of the assets sold. The ministry paid the amount as part of its regular payments to Zenon. While Zenon claimed that work in progress was included in the assets it purchased, the ministry's position was that the work was not included. Through negotiations the parties agreed that Zenon would repay 34% of the $152,196, amounting to $51,747. The 34% was used because the ministry and Zenon agreed that the price paid for the laboratory assets purchased by Zenon amounted to 34% of the assessed value of the assets sold.

The parties agreed that the amount owing for the work in progress ($51,747) and the outstanding adjustment payments relating to 1989 ($180,000) would be recovered by increasing the discount for 1990 and by a price adjustment for 1991 to the service agreement. The ministry estimated that the amount owing will be recovered during the life of the agreement, but the agreement does not require that interest be paid on any outstanding balances. To December 31, 1991, the ministry had recovered $114,000 of the total $231,747 owing.

Zenon also owed the ministry money as a result of the amendments to the service agreement. Based on the auditor's report, Zenon owed the ministry $53,238 for these amendments. The ministry has recovered this amount. In addition, the ministry might be entitled to an additional $54,260, depending on how the service agreement and the amendments are interpreted. The ministry has decided to get interpretation through arbitration.

## A Comparison of Zenon Prices to Market

The prices that Zenon is charging the ministry for the services supplied are stated in the contract. These represent the internal prices of the ministry at the time the laboratory was sold to Zenon. The contract calls for an annual

adjustment to the prices based on the changes in the Vancouver Consumer Price Index rate, reduced by 2%.

The ministry believes that the prices it is paying are substantially greater than those being charged for similar services in the open market. It has attempted to open the contract and renegotiate the prices with Zenon, but it has not been successful. In the amending agreement, the ministry and Zenon have undertaken, "prior to March 31, 1992, to agree upon the terms of reference for a joint review of the price list relative to market pricing."

To determine how Zenon prices compare to market prices, we selected the prices for a sample of 18 tests frequently requested by the ministry, and compared those prices with the prices of four commercial laboratories providing similar services. The prices compared were for single tests only. The laboratories used in the tests included two local competitors to Zenon of approximately the same size; an Alberta laboratory that does work on a national scale; and a government laboratory in another province that also provides services to the private sector on a fee-for-service basis. We concluded that, on average, the prices of all the four laboratories were lower than those of Zenon.

## Discounts and Special Services

Of course, when prices are compared, discounts offered for higher volumes must be considered. All the laboratories we sampled offered such. Those at two of the laboratories ranged from 10% to 30% depending on the volume of samples requested; those at the other two have to be negotiated. In accordance with its contract, Zenon does not discount until the annual amount of the contract exceeds $2.8 million. At that time a discount of 14% is applied.

We also compared the prices the ministry pays for special services.

Zenon performs a series of analyses on domestic water for the general public. For this service, it collects $25 from the person requesting the analysis and a further $100 from the ministry as a subsidy. Of the four laboratories that we used for comparison, only the provincial laboratory provided this same domestic water analysis. Its normal charge for the service is $50.50. However, if a member of the public requests the tests, the laboratory charges $30 to the person requesting the service and receives a subsidy of $3 from the government. The $33 received is to cover the laboratory's costs.

In some cases, tests have to be carried out in a shorter period than is normally allowed for them. Laboratories then usually add a surcharge to their regular prices. We compared these "priority charges" of the laboratories, which applied to analyses that are carried out in a one- or two-day turnaround time, but not on overtime. Three of the laboratories have a surcharge of 50%; Zenon's is 75%.

The laboratories also levy a surcharge for rush analyses, which means that overtime has to be incurred to carry out the work. Two of the labs have a 100% surcharge on the regular price charged; another adds a 50% surcharge plus any overtime costs that are incurred, a maximum of twice the hourly salary rate. Zenon's charge is a call-out fee of $500, plus the regular price for performing the analysis, plus 2.5 times the staff's hourly rate. Clearly, Zenon's charges are higher than those of the other labs.

Based on the above comparisons, we do not believe that the ministry is

receiving value for money from this contract.

### Looking Ahead

The ministry should ensure that it has allocated sufficient resources to the financial management of this contract and that the requirements of its quality assurance program are carried out.

*The Environmental Laboratory was privatized in 1989 as part of the cross-government privatization initiative. At the time, Ministry officials noted their concern that great care would be needed to ensure required levels of quality and service would not be compromised in this important function. The privatization agreement was negotiated within a very short time frame under deadlines set by Cabinet and through the direction of the Privatization Working Group. While many of the initial weaknesses with the contract have been resolved or improved, the administration of the Zenon contract remains a concern to the Ministry.*

*Specific comments in the Auditor General's Report are addressed below:*

### *Financial Management of the Contract*

- *Since the audit was completed, the Ministry has initiated the review of control procedures within the regions. Three regions will be reviewed by fiscal year-end, and the remaining regions will be reviewed by the summer of 1992. The Ministry will report the results to the Auditor General once they are available.*

### *Quality Assurance*

- *The Ministry has retained a contractor to prepare organic and pesticide "blind" reference samples, which will be submitted to Zenon on a regular basis. Detailed work plans have been developed and documented for this program. The Ministry will keep the Auditor General informed if any irregularities occur.*
- *The Ministry has expanded the "blind" audit program by increasing the volume, frequency and type of inorganic and pesticide samples.*
- *The Ministry has requested Zenon to submit monthly comprehensive quality assurance reports providing all relative internal quality assurance data for parameters specified by the Ministry for each region.*
- *The Ministry has increased the numbers of parameters audited within the scope of the inter-laboratory studies of the Laboratory Registration Program. Additional parameters will be added for the October 1992 studies.*
- *There are currently four FTEs assigned for environmental laboratory activities, dedicated to quality control methods and development and control. In addition, the Ministry has dedicated a further FTE to administer the Zenon contract.*

### *Value for Money*

- *The Ministry continues to be concerned over the cost effectiveness of the services delivered. Considerable*

*resources are used in the administration of the program, and the Ministry will continue to pursue efficiencies in a diligent manner.*

- *Ministry efforts to renegotiate the price list have not been successful. To date Zenon has been unwilling to adjust prices and is also unwilling to have prices established by an independent third party. The Ministry is continuing to work with Zenon on this matter.*
- *The Ministry is actively pursuing options for laboratory services for implementation at the expiration of this contract at December 31, 1993.*

## MINISTRY OF FINANCE AND CORPORATE RELATIONS

# OFFICE OF THE COMPTROLLER GENERAL: GOVERNMENT PAYROLL OFFICE

*A review of the financial controls at the Government Payroll Office*

## AUDIT PURPOSE AND SCOPE

We reviewed the financial controls over the payroll system of the government. Our comments relate to the Government Payroll Office (GPO) activities during the fiscal year ended March 31, 1991. We conducted this review in January 1992. We also carried out limited follow-up tests to confirm that circumstances surrounding our comments had not changed significantly since March 1991.

The purpose of our review was to determine whether the GPO had established and maintained adequate controls to ensure that:

- ministries forward complete and accurate information about their personnel to GPO; and
- payroll information kept in computer files is adequately protected from unauthorized access and manipulation.

Our review included an analysis of a payroll audit report prepared by the Internal Audit Branch (IAB) of the Office of the Comptroller General in the 1990/91 fiscal year, which confirmed issues we had reported to the government in previous years. Our review also included discussions with senior personnel of the Comptroller General, including the GPO, and other tests and procedures we considered necessary in the circumstances.

## OVERALL CONCLUSION

We concluded that the GPO has established and maintains adequate controls over the completeness, accuracy and security of information used in the government payroll system. We do, however, have some observations of significance relating to: inconsistently applied authorization controls, inadequate segregation of duties, and GPO's narrow role of responsibility.

## THE GOVERNMENT

People are employed by government in two main ways: directly, in a standard employer-employee relationship, or by way of service contracts. Those employed directly by the government are subject to various statutory withholdings such as income taxes, Canada Pension Plan, and unemployment insurance contributions. Most employees participate in government sponsored benefit schemes such as superannuation, medical and dental plans. Contracted personnel, on the other hand, are dealt with outside the government payroll system. They are not subject to statutory withholdings nor entitled to government sponsored benefits. Payment for services of contracted personnel is not the responsibility of the GPO. Each ministry is responsible to pay its own contractors.

In the year ended March 31, 1991 the British Columbia government spent $1.3 billion on salaries and benefits for all its employees on its payroll system. This represented 8.6% of government expenditures of $15.2 billion for that fiscal year, as illustrated in Figure 2.6.

The proportion of the government's direct payroll costs as a percentage of total expenditures has declined over the last five fiscal years from 12.5% to 8.6%.

The Office of the Comptroller General, in the Ministry of Finance and Corporate Relations, has overall responsibility for the activities of the GPO. The main functions of the GPO are to produce biweekly salary and wage payments to government employees, maintain the necessary payroll information on computer files, and produce reports for various government departments and external agencies.

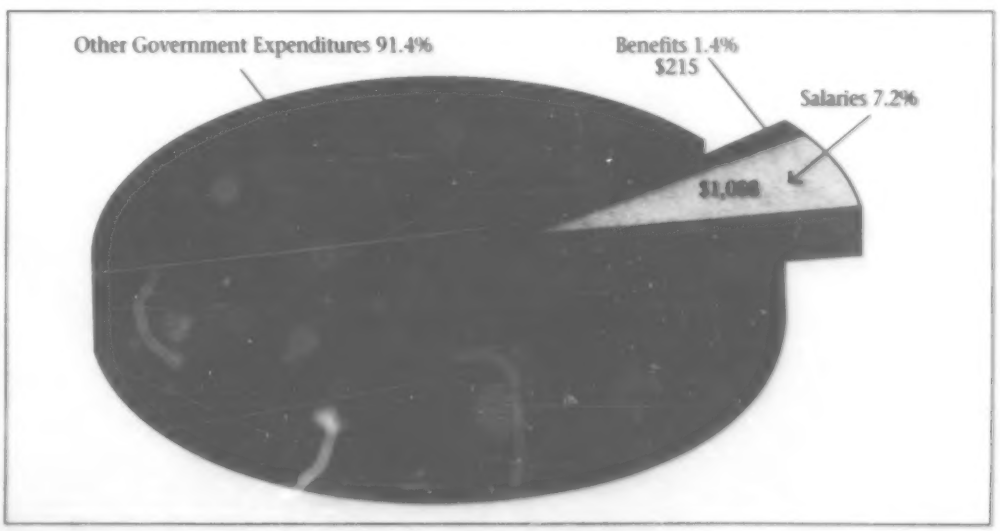
More than 90% of all biweekly salary and wage payments are electronically transferred to employees' bank accounts. The remainder is paid by mechanically produced and manually delivered cheques.

The GPO is directly responsible for ensuring that the payroll system complies with various federal and provincial statutes, regulations and union contracts. Statistical and payroll reports are regularly prepared for external users, such as Revenue Canada Taxation, Statistics Canada, and various unions. Similar reports are generated regularly for the provincial ministries,

**FIGURE 2.6**

Proportion of Payroll Costs and Other Government Expenditures for the Year Ending March 31, 1991 ($ in millions)

*Source: Audited Public Accounts*



Workers' Compensation Board, the Superannuation Commission, and other government organizations.

## Effective Controls

The integrity of the government payroll system depends on a strictly controlled flow of complete and accurate information. Since payroll transactions originate in hundreds of ministry locations all over the province, it is important that every piece of information sent into the payroll process be checked and authorized by an official who is responsible for doing so. By focusing on supervisory review of payroll information before it is processed, government can reduce the risk of unintentional errors or opportunities for fraudulent transactions.

Segregation of duties is also an effective way to reduce these risks. When the work of one employee is checked or complemented by another, there will be less likelihood of financial irregularities being concealed. Without this type of arrangement, the risk of paying fictitious employees or of paying for work not actually performed would increase.

## Observations of Significance

We found that authorization controls, both at the GPO and at ministries, were applied inconsistently. The controls in place at the GPO tend to be cursory. For instance, some payroll information received by the GPO for processing is not thoroughly checked for evidence of review.

Most mistakes in ministries were attributed to inconsistent supervisory control. Clerical errors and non-compliance with statutes, regulations and policy and procedure manuals indicated that the GPO should strengthen its central control. A lack of policy for training ministry payroll staff is partly responsible for the problems found. Findings in the IAB report corroborate these observations.

We recommended that authorization of payroll information be checked by ministries' staff to ensure it is complete and accurate before it is forwarded to the GPO. The GPO should check these authorizations for compliance with its policies. As well, GPO should develop and implement a formal training program to reduce errors originating in the ministries.

The GPO does not make surprise field visits to ministry payroll offices in order to assess the adequacy of compliance with payroll control policies. The IAB report recommended that it do so. Random field visits are effective controls. They cause an awareness of being checked, and therefore reduce the risk of irregularities especially where, for the sake of economy, conflicting duties are performed by individual staff. We agree with the IAB recommendation that GPO staff conduct surprise field visits.

GPO policy requires ministries to confirm information which is processed by the payroll system and to check samples of payroll transactions periodically. The IAB reported that several ministries did not do so on a regular basis. The consistent adherence to these policies should be checked by GPO to ensure complete and accurate payroll information. GPO policies do not indicate what type of ministry staff should check the accuracy of payroll information. For effective control, staff independent of payroll departments should perform these checks. This has not usually been the case.

Every year, the GPO creates and distributes Revenue Canada T4 slips to ministry payroll offices. The IAB report indicated that last year a number of

these forms were not picked up by employees. GPO has no policy on this issue. The IAB report recommended that all T4 slips be traced to determine the reason why they were not collected. This is to ensure that no fictitious employees exist. It was also recommended that GPO personnel should periodically distribute pay cheques or remittance advices as a means of detecting possible fictitious employees. We agree with these findings and recommendations.

Most government payroll information is processed through the British Columbia Systems Corporation. Physical access to computer files is controlled by the Corporation. Access by users to the government payroll system is controlled by the GPO systems manager. Changes to computer programs are made by GPO systems staff and are put into use after thorough testing. This is an appropriate segregation of duties.

Some GPO systems staff, however, are involved in both changing computer programs and implementing them. This lack of segregation of duties, identified in the IAB report, poses a risk that unauthorized changes to the system could be implemented, resulting in errors or, indeed, manipulation of payroll. We agree with the IAB report that staff duties be changed to allow proper segregation of duties relating to program changes.

The IAB reported that the GPO mandate of processing payroll transactions correctly and on time is clear, but narrow in scope. We agree with the report. The emphasis on operations, without reference to the accountability of the GPO to ensure that ministry payroll offices comply with central policies and procedures, leaves a gap. This explains some of the above-noted observations about control weaknesses at both the GPO and in the ministries. We believe the Comptroller General should resolve this problem by reassessing and expanding the scope of responsibilities assigned to the GPO.

*The Office of the Comptroller General welcomes the comments and recommendations of the Office of the Auditor General and appreciates the opportunity to respond to the review of the financial controls at the Government Payroll Office (GPO).*

*The GPO is taking steps to expand its work in training government payroll personnel and performing compliance reviews of adherence to payroll policies and procedures.*

*While we are continually updating our policies and procedures, we will maintain our efforts to ensure that our manuals remain clearly written and include full details. These factors will be further emphasized in any training or compliance review.*

*We agree that the segregation of duties is an effective way to reduce the risk of fraudulent transactions. We will review and reassess our organizational structure and procedures and, wherever necessary, enhance them or establish new ones to provide maximum internal control.*

*Of course, the speed and thoroughness with which we can address these recommendations will depend, to some extent, on the availability of funding and resources.*

# Updated Responses to Preceding Year's Compliance, Control, and Accountability Audits

At the conclusion of our audits, where it is feasible to do so, we provide those ministry officials responsible for managing the programs or activities under review with the opportunity to respond to our audit comments. These responses are published immediately following the related item in our Annual Report.

Since these responses are normally made soon after the completion of our audits, management is usually only able to outline its plans to resolve the matters we have raised. We feel that legislators and the public would be better informed if they were provided with a more complete picture of the nature, extent, and results of management's remedial action. Accordingly, we have invited ministries to provide updates to the responses published in last year's Annual Report. These are reproduced below.

## *Compliance with the Financial Information Act, Regulation, and Directive*

*Since the recommendations by the Auditor General were made in the 1991 Auditor General Annual Report, the following steps have been taken to improve compliance with the Financial Information Act:*

- *An amendment to the Act will be included in the spring session of the legislature to update the schedules of reporting corporations.*
- *The regulation and directive issued under the authority of the Act are currently under review. Consideration is being given to amending the regulation and directive to deal with administrative and reporting issues raised by the Auditor General. Central agency and ministry responsibilities have been clarified with appropriate staff.*
- *A public information brochure will be released shortly outlining the intent of the legislation and procedures for obtaining information under the Act. In addition, information sessions sponsored by the Canadian Institute of Chartered Accountants and the Office of the Auditor General have raised the awareness of reporting corporations of their responsibilities under this Act.*

*The Auditor General has suggested that it would be appropriate to make all consolidated entities subject to the Financial Information Act. Without changes to the legislation or the basis for consolidation, this is not possible. Decisions to make entities subject to the Act also take into account the value of making this information public, the effect such a requirement would have on the reporting entity, and the recommendations of the Auditor General. The Crown Corporations Secretariat, formed by the government last December, has indicated that it will be reviewing the issue of accountability with respect to government corporations.*

## COMPLIANCE WITH PART IV OF THE FINANCIAL ADMINISTRATION ACT AND ITS RELATED REGULATIONS

### B.C. Transit Payment/Capital Payments out of Vote 67 and 53

*The amounts paid to B.C. Transit out of Vote 67 had been transferred, as noted in last year's response to the report, from Vote 67 to the Freedom to Move Special Account. In addition, amounts paid out of Vote 53 temporarily until the Sustainable Environment Fund Special Account had been set up, have also been transferred to that special account.*

### Form and Content of the Estimates

*As reported last year, we believe that through the budget process and the precedent established over the years that there is implicit approval of the form of the Estimates by Treasury Board. Consideration will be given to any recommendations for improvement that are made by the consultants currently conducting the financial review.*

[redacted]

## EXPENDITURE REVIEW

*The Legislative Comptroller has provided the following update to the comments contained in the Auditor General's 1991 Annual Report.*

*While the general election on October 17th, 1991, has somewhat delayed our plans for introduction of certain administrative changes, it has also provided us with an opportunity to conduct in-depth briefing sessions with both the new and returning Members regarding their allowances and expense claims. The Speaker-designate has strongly indicated that guidelines should be provided to the Members which fully describe their allowances and the claiming and administrative procedures to be followed. As an example, memos have recently been issued to all Members regarding such matters as the Goods and Services tax, the purpose of the global budgets for each Caucus, and the use of the communications allowance.*

*In addition, my office is currently reviewing several responses to a "Request for Proposal" which was issued to obtain bids from interested companies for the supply of a computerized financial system. If approved, this will allow my office to provide more detailed and informative reports to the Members as well as the various legislative support offices.*

[redacted]

## EXTERNAL SETTLEMENT/ SAFEKEEPING SERVICES FOR LONG-TERM BOND PORTFOLIOS

*We appreciate the opportunity to provide an updated response to the findings and*

*recommendations contained in the internal control review of the external settlement/safekeeping services used for the province's long-term bond portfolios. With one exception, all the initial recommendations have been implemented.*

*The Financial Models Corporation (FMC), the supplier of our portfolio/accounting system (IPS), still requires access to the province's investment data on the system. This access is required to continue implementation of the system changes that the province has requested. This access is monitored by Provincial Treasury and will be terminated once all required system changes are complete.*

[redacted]

### *Child Day Care Subsidy Program*

*We appreciate the opportunity to provide an updated response to the findings and recommendations contained in your report on Child Day Care Subsidy Program.*

*The Community Support Services Division is in the process of re-writing its policy manual to clarify policy and procedures in all areas, including Child Day Care Subsidy Program.*

*The Ministry is in the process of making changes to the Day Care Accounts system; this will improve the review and monitoring of error and warning message reports.*

*We have initiated changes which will extend the existing monitoring procedures for other programs such as GAIN to be applied to Day Care as well.*

[redacted]

### *The Industrial Incentive Fund: An Audit of the Loan Process*

*The Ministry notes that, in its "Overall Assessment", the audit report concluded that the Ministry's procedures for reviewing and evaluating funding requests are generally adequate and are being adhered to consistently. This results in substantial information being provided to decision makers (the Minister and Cabinet).*

*As to the determination of the value of "net economic benefits", the Ministry is continuing to develop a more standardized approach for gathering and analyzing this information when reviewing projects. However, the nature of projects differ and the information is a varying mix of qualitative and quantitative values. Information on expected economic benefits is being provided consistently to decision makers.*

*The Ministry is working with the Ministry of Finance and Corporate Relations, Loan Administration Branch, on an ongoing basis to refine the project monitoring process, with the goal of expanding the level of up-to-date relevant information on the portfolio. With respect to suggested improvements to the monitoring of projects after funds have been disbursed, we are advised that the Loan Administration Branch has made significant progress in developing a comprehensive computerized Loan Administration System. This system, which will meet the required standards, is expected to be virtually complete by April 1992. In the interim, all of the Industrial Incentive Fund loans and investments will have been systematically reviewed by the end of this fiscal year.*

[redacted]

*The Ministry is pleased to advise that, as was recommended in the audit report, the next Ministry Annual Report will contain base-level information on individual Industrial !ncentive Fund projects approved during the fiscal year. In addition, as data becomes available, the Ministry will be considering ways of presenting information in its annual reports on the results realized through the Industrial Incentive Fund as a whole.*

# PART III
# FINANCIAL AUDITS

# PART III
# FINANCIAL AUDITS

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# INTRODUCTION

This part of our Annual Report contains comments and observations arising from the Auditor General's audit of the financial statements of the government for the fiscal year ended March 31, 1991. It also relates to audits of the financial statements of various Crown corporations and other public bodies, in particular those for which the Auditor General is the appointed auditor.

## THE AUDITOR GENERAL'S MANDATE

The Auditor General is required, under the provisions of the Auditor General Act, to examine the accounts and records of the government and to report annually to the Legislative Assembly on the government's financial statements. In these reports, the Auditor General must state whether he has received all the information and explanations he has required and whether, in his opinion, the statements present fairly the financial position, results of operations, and changes in financial position of the government in accordance with its stated accounting policies, consistently applied. If he is unable to express his opinion without reservation, he is required to state the reason why.

The Auditor General is also eligible to be appointed auditor of a Crown corporation, Crown agency, or public body. The Act does not specify what is required of the Auditor General in the conduct of such audits. In the absence of specific direction, the work is carried out in a similar manner and with the same objectives as those applied to the audit of the government's accounts.

## THE PUBLIC ACCOUNTS

Each year, in accordance with the *Financial Administration Act*, the government prepares a document titled the Public Accounts. This document contains the financial statements of the government, the Auditor General's reports on those financial statements, and other information the government is required or chooses to include in the publication. The form and content of the Public Accounts, as well as the accounting policies used in the preparation of the financial statements, are determined by the Treasury Board.

The Public Accounts for the 1990/91 fiscal year are published in two volumes titled, respectively, *Consolidated Reporting Entity, Trust Funds and Summaries of Financial Information Reports* and *Financial Statements and Schedules of the Funds Comprising the Consolidated Revenue Fund.*

The first volume provides an overview of the total financial affairs and resources for which the government is responsible. It contains the government's Summary Financial Statements (formerly titled the "Consolidated Financial Statements"), and the Consolidated Revenue Fund Financial Statements (formerly titled the "Combined Financial Statements"). It also contains audited financial statements of government organizations and enterprises, and of certain trust funds administered by the government. Finally, the volume contains

summarized financial statement information of corporations and entities to which the *Financial Information Act* applies.

The second volume contains the audited financial statements of the General Fund, the Privatization Benefits Fund, and the Budget Stabilization Fund, together with supplementary schedules to the General Fund financial statements and detailed schedules of payments from that fund. This volume is intended to serve as the government's accountability report to the legislature on revenues raised and expenditures made as authorized by the *Supply Act* and other statutory spending authorities.

## The Government's Financial Statements

The government's financial statements are an important link in an essential chain of public accountability. They are the principal means by which the government reports to the Legislative Assembly, and to all British Columbians, on its stewardship of public funds.

The Summary Financial Statements are the most comprehensive statements issued by the government. They reflect the financial activities of central government, combined with those of other government organizations that are owned or controlled by the government, and that are accountable for the administration of their own financial affairs and resources either to a minister of the government or directly to the legislature. A copy of these financial statements, together with the Auditor General's report containing his opinion on them, appears in Appendix F of this report.

Next in order of completeness are the financial statements of the Consolidated Revenue Fund. This fund, established in keeping with the *Financial Administration Act*, accounts for all the financial activities of central government. Accordingly, its financial statements also constitute an important accountability document.

Finally, financial statements are published for the three funds making up the Consolidated Revenue Fund: the General Fund, the Privatization Benefits Fund, and the Budget Stabilization Fund. This is the first year that formal financial statements have been presented for the Privatization Benefits Fund and the Budget Stabilization Fund. In previous years, financial information about these special funds was published in the form of supplementary statements to the Combined Financial Statements.

Although constituting only a part of the Consolidated Revenue Fund—albeit a major part—it is the General Fund to which the government has generally referred when describing its operating results for a fiscal period.

## Changes to the Auditor's Standard Report

During the year under review, the Canadian Institute of Chartered Accountants (CICA) introduced significant changes to the wording of the standard report to be used by an auditor who is engaged to express an opinion on general purpose financial statements. These changes were adopted by the CICA to emphasize the respective roles of management and the auditor with respect to the statements, and to clarify the meaning of the auditor's opinion contained in the standard report.

Formerly, the auditor's standard report contained two paragraphs. The first, often referred to as the "scope" paragraph, identified the financial statements that had been audited, commented on the auditing standards employed, and stated whether all necessary information and explanations had been received. The second paragraph, usually referred to as the "opinion" paragraph, contained the auditor's opinion as to the fair presentation of the financial information.

The new auditor's standard report contains three paragraphs. The first identifies the financial statements that have been audited. It also points out that the statements are the responsibility of management, and that the auditor's responsibility is to express an opinion on the statements. Next is the scope paragraph, which describes the nature and extent of the auditor's work, and the degree of assurance that the auditor's report provides. It refers to generally accepted auditing standards and describes some of the important procedures which the auditor undertakes. Finally is the opinion paragraph, which contains the auditor's conclusion based on the audit conducted.

The new standard report has been adopted by the Auditor General of British Columbia for all reports dated on or after March 1, 1991.

Further comments on the significance of the auditor's opinion, and the process employed in reaching that opinion, appear in Appendix C of this report.

## Results of the Audits

As a result of the examinations carried out, the Auditor General has provided auditor's reports on each set of financial statements prepared by the government for the fiscal year ended March 31, 1991, including those of the special funds previously referred to; and on the financial statements of 34 Crown corporations and other public bodies whose fiscal year-ends occurred on that date or during that fiscal year.

The reports on the government's financial statements appear with the respective statements published in the Public Accounts. Reports containing the Auditor General's opinions on public body financial statements are similarly appended to the respective statements of each organization.

While conducting our financial statement audits, we encounter numerous items which call for study and corrective action by the ministries, central agencies, and public bodies concerned. We deal with these matters by direct contact with officials of these organizations. Some issues, however, are considered of sufficient significance to warrant the attention of the Legislative Assembly. Those arising as a result of our audit of the government's financial statements appear in the following report section. Those relating to our audit of public bodies are contained in a subsequent report section titled, "Audit of Public Body Financial Statements."

# AUDIT OF THE GOVERNMENT'S FINANCIAL STATEMENTS

## UNFUNDED PENSION LIABILITY: RESERVATION OF AUDIT OPINION

The government has a liability for the unfunded portion of pension benefits earned by its employees. It has chosen, however, to exclude the recording of this liability from its accounts and published financial statements.

In the Auditor General's annual reports to the Legislative Assembly for each of the years 1988 to 1991, it has been recommended that the government record its pension liabilities in its accounts and financial statements. This year the decision has been taken to issue a reservation qualifying the Auditor General's opinion as to the fairness of presentation of the government's financial statements for its 1990/91 fiscal year. The reservation concerning the government's summary financial statements is expressed as follows:

> *These financial statements do not include the Government's liability for the unfunded portion of pension benefits earned by employees. The Government only records as pension expenditure the amount of funding it provides in accordance with the Pension (Public Service) Act. If the Government had been recording the full cost of pension benefits accruing to its employees in each fiscal year, in the manner recommended in 1988 by the Canadian Institute of Chartered Accountants, the Government's liabilities and net deficiency would have been increased by approximately $441 million as at March 31, 1990, the date of the latest actuarial valuation pursuant to the Pension (Public Service) Act. Since no other actuarial valuations have been carried out using the recommended accrued benefit method, the effects on the consolidated net revenue (expenditure) for the years ended March 31, 1990 and 1991, and on the liabilities and net deficiency at March 31, 1991, are not reasonably determinable.*

The $441 million referred to above is arrived at by comparing the basic account assets, at market value, of the Public Service Superannuation Fund at March 31, 1990 ($3,013 million), with the accrued pension liabilities at that same date ($3,454 million).

To understand the context of this matter, one should be clear about a few basic points. First, the government's publicly stated basis of accounting is the accrual basis. A major government accounting policy that flows from this is that all liabilities are to be recorded to the extent that they represent claims payable to outside parties as a result of events and transactions occurring before the year-end.

Next, Public Sector Accounting Statement 5, issued by the CICA in November 1988, states that pensions are a form of compensation offered for

services rendered, and that they accrue over the years in which employees render those services. Accordingly, that statement makes the following recommendation: "The statement of financial position (balance sheet of a government) should account for the pension liability and the statement of revenues and expenditures should account for the pension related expenditures on the basis of the value of the pension benefits attributed to employee service to the accounting date."

The British Columbia government has historically been recording, as its pension expenditure for each fiscal year, the amount of funding it has provided in accordance with the *Pension (Public Service) Act*, rather than the full cost of pension benefits accruing to its employees in each fiscal year. The government's most senior financial officials have recently expressed their support for the concept of recording the government's full liability for unfunded pension liabilities.

It is appropriate to compare this issue in British Columbia with its status in some of the other senior government jurisdictions in Canada. The Government of Canada and the Province of Quebec record their pension liabilities in their financial statements; and the Provincial Auditors of Manitoba and Saskatchewan and the Auditor General of New Brunswick have expressed reservations which qualify the audit opinions on their provinces' latest financial statements in regard to unrecorded pension liabilities.

We consider this matter of the recording of unfunded pension liabilities to be an urgent financial reporting issue in need of corrective action by the government. We therefore urge the government again to accept and approve the recommendation to record its pension liabilities on the basis of pension benefits earned by employees.

## Amounts Recoverable Through Future Appropriations

As we stated in our 1991 Annual Report, the government's balance sheet as at March 31, 1991, contains as its largest asset a category titled "Fiscal Agency Loan Program." This asset category comprises amounts receivable from government bodies ($7,396 million) for loans made to them.

Included in this sum are amounts owing from the province's universities, colleges, institutes, hospital districts, school districts, and other public sector organizations such as British Columbia Transit. Many of these organizations have few sources of funds from which to repay the amounts owed to the government—except, of course, future receipts of funds from the government itself. The question that follows from this is whether such amounts receivable from public sector organizations should be considered as "assets" of the government.

Professional accounting terminology prescribes that assets, to be considered as such, should possess certain essential characteristics, such as the capacity to contribute to future net cash flows. Assets are defined as money or money equivalents (e.g., investments), or the reflection of expected future benefits. The CICA's Public Sector Accounting Statement 3 defines financial assets for government financial statements as being those assets on hand which could

be used to discharge existing liabilities or finance future operations. Amounts receivable by the government from government bodies—amounts which can be expected to be repaid out of future appropriations from the government itself—would not appear to meet the tests for being considered as "assets."

Aside from the question as to whether or not certain loans should be recorded as assets is the consideration as to whether such loans should be reduced by valuation allowances to their net realizable value.

The most common method for reducing the book values of assets to their estimated net realizable value is to provide for valuation allowances. These allowances are deductions from the face value of such assets as amounts receivable or amounts invested. Public Sector Accounting Statement 3 recommends that valuation allowances be used so that financial assets are reflected at their net recoverable, or other appropriate, value. Such valuation allowances are to include allowances for amounts recoverable only through future appropriations.

Amounts recoverable of this nature, including those loans in the government's Fiscal Agency Loan Program asset category, are represented mainly, but not entirely, by amounts owing from British Columbia Transit ($979 million) and from the province's health and education organizations ($2,335 million). British Columbia Transit does not generate a financial return on its operations sufficient to service its debt. The province's annual contributions toward the payment of health and education debt service costs have, in recent years, approximated 80% of those costs.

Thus, of the total $7,396 million amount receivable within the government's Fiscal Agency Loan Program asset category, approximately $2,800 million will likely require repayment out of future appropriations from the government itself. However, no allowance or other separate form of recognition has been established to alert financial statement readers of whether the loans in this significant asset category are collectible.

In other provincial government jurisdictions, similar types of assets are found and their valuation considered. Ontario in 1986, for example, removed from that province's accounts certain financial assets that were to be repaid out of future provincial expenditure appropriations. New Brunswick did the same in 1988. In Saskatchewan, the Provincial Auditor has included a reservation to his audit opinion on that province's financial statements because of an amount included in the asset category "Loans to crown entities"—an inclusion considered to be inappropriate, since its repayment depends on future appropriations from the province's Consolidated Fund. Notes to the Manitoba and Prince Edward Island government financial statements inform the reader of asset amounts that depend on future government appropriations for their repayment. In Alberta, the cost of capital construction projects for such institutions as advanced education organizations and hospitals is provided for by the Alberta Capital Fund, and those costs result in a charge to that province's accumulated net equity.

It is noteworthy that the Health Facilities Association of British Columbia has on its balance sheet an asset amount of approximately $70 million entitled "Deferred expenditures — Grants to health facilities, net of

amortization." This amount is similar in nature to the Fiscal Agency Loan Program amounts referred to above. However, when the accounts of the Health Facilities Association are consolidated with those of other government organizations, these deferred expenditure amounts are eliminated, as they are not considered to be assets of the government's summary reporting entity. We agree with this treatment.

We think this is a very significant accounting and financial reporting issue, as does the CICA, which is currently researching further the issue of "Loans and Advances Receivable" by governments.

It is our belief and recommendation that amounts recoverable through future appropriations should be reduced in value to the amounts estimated to be realizable from sources outside the financial reporting entity, through the establishment of valuation allowances.

If valuation allowances are not to be provided immediately, both the stated accounting policy and the financial statement note on the Fiscal Agency Loan Program should be expanded with explanatory information to inform the reader that some of the amounts, as specified, are only recoverable through future appropriations from the government.

## Comparison of Reported Financial Statement Amounts

In recent years, financial reporting by the government of British Columbia has often been misunderstood by members of the public, the media, and special interest groups. Perhaps the leading cause of this problem has been the variety of financial statements the government annually issues to account for its fiscal affairs.

Aside from financial statements for its two special funds, the government produces three other sets of financial statements, each of which is sometimes taken by various parties to reflect the government's financial transactions and balances for a given fiscal year. These three sets of financial statements represent the:

- Summary Financial Reporting Entity
- Consolidated Revenue Fund
- General Fund

In order to help clarify the relationship between these three levels of government financial reporting, we present the following diagram (Figure 3.1), together with a summary of financial results and balances for each of the past two fiscal years (Table 3.1).

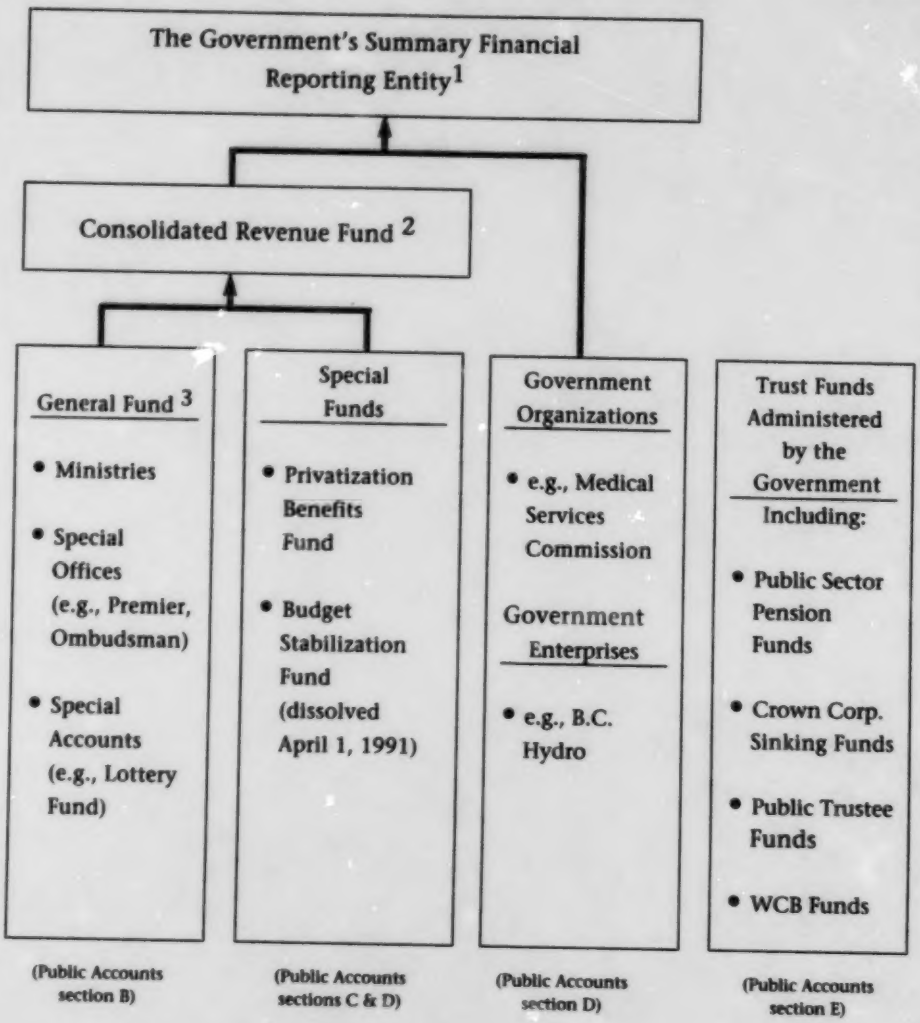
The Government's Summary Financial Reporting Entity[1]
Consolidated Revenue Fund [2]
General Fund [3]
• Ministries
• Special Offices (e.g., Premier, Ombudsman)
• Special Accounts (e.g., Lottery Fund)
Special Funds
• Privatization Benefits Fund
• Budget Stabilization Fund (dissolved April 1, 1991)
Government Organizations
• e.g., Medical Services Commission
Government Enterprises
• e.g., B.C. Hydro
Trust Funds Administered by the Government
Including:
• Public Sector Pension Funds
• Crown Corp. Sinking Funds
• Public Trustee Funds
• WCB Funds
(Public Accounts section B)
(Public Accounts sections C & D)
(Public Accounts section D)
(Public Accounts section E)

**FIGURE 3.1**

**The Levels of Government Financial Reporting**

[1] The government's Summary Financial Reporting Entity includes amounts from government owned and/or controlled organizations, and most closely meets the criteria for proper financial reporting by governments, as recommended by the Canadian Institute of Chartered Accountants.

[2] The Consolidated Revenue Fund is the fund into which all public money of the government, other than trust funds, must be paid. This fund combines amounts from the general fund and any special funds established by the Legislative Assembly.

[3] The General Fund financial information is that to which the government most often has referred in its public comments on financial accountability issues (e.g., in the Estimates, Public Accounts Digest, and Economic and Statistical Review ).

**TABLE 3.1**

Comparative Summary of Financial Results and Balances (in $ Millions )

*Source: The Government's Audited Financial Statements*

| | Government Summary Financial Reporting Entity | | Consolidated Revenue Fund | | General Fund | |
|---|---|---|---|---|---|---|
| | 1990/91 | 1989/90 | 1990/91 | 1989/90 | 1990/91 | 1989/90 |
| Net Equity (Deficiency), beginning of year | (1,603) | (2,007) | (2,667) | (3,024) | (4,689) | (4,825) |
| Net Revenue (Expenditure), for the year | (503) | 404 | (610) | 357 | 100 | 136 |
| Net Equity (Deficiency), end of year | (2,106) | (1,603) | (3,277) | (2,667) | (4,589) | (4,689) |
| Total Assets, end of year | 12,441 | 11,149 | 9,306 | 7,995 | 8,832 | 7,573 |
| Total Liabilities, end of year: | | | | | | |
| Public Debt | 12,717 | 11,060 | 10,959 | 9,126 | 10,959 | 9,126 |
| Other | 1,830 | 1,692 | 1,624 | 1,536 | 2,462 | 3,136 |
| | 14,547 | 12,752 | 12,583 | 10,662 | 13,421 | 12,262 |
| Guaranteed Debt, end of year | 4,362 | 4,878 | 6,227 | 7,134 | 6,227 | 7,134 |

## The Budget Stabilization Fund

The Budget Stabilization Fund (the Fund) came into existence on March 31, 1988, when the *Budget Stabilization Fund Act* came into force. Three years plus a day later, on April 1, 1991, the Fund was dissolved by the *Taxpayer Protection Act.*

A brief financial perspective on the Fund's history is shown in Table 3.2.

The Fund, along with its companion fund, the Privatization Benefits Fund, have been the government's only two special funds over the past few years. Special funds are separate accounting entities within the government's Consolidated Revenue Fund. Each may have assets, liabilities, revenues, expenditures, and a fund equity distinct from the General Fund accounting entity.

These three funds—the Budget Stabilization Fund, the Privatization Benefits Fund, and the General Fund—have made up the government's Consolidated Revenue Fund since March 1988. As a consequence, any transfers

**TABLE 3.2**

Budget Stabilization Fund Transactions (in $ Millions)

*Source: The Government's Audited Financial Statements*

| | Received from | | | | | |
|---|---|---|---|---|---|---|
| Fiscal Year | General Fund | Lottery Fund | Interest | Total | Payments to General Fund | Net Receipt (Payments) |
| 1987/88 | 717 | 26 | | 743 | | 743 |
| 1988/89 | 592 | 79 | 77 | 748 | | 748 |
| 1989/90 | 448 | | 161 | 609 | 500 | 109 |
| 1990/91 | | | 164 | 164 | 926 | (762) |
| 1991/92 | | | | | 838 | (838) |
| | 1,757 | 105 | 402 | 2,264 | 2,264 | |

or payments between these three funds have no effect on the operating results and net equity (or deficiency) of the Consolidated Revenue Fund.

Since inception of the Budget Stabilization Fund, many people have questioned whether the balance of the Fund represented "money in the bank." The answer is, no, it did not, because the money was used for operating or debt-reduction purposes.

When the government said that it was making transfers from the General Fund to the Budget Stabilization Fund, many people assumed that, at the same time, separate bank or investment accounts were established to serve as depositories for the money. This is not what happened, however. Money transferred by the government into the Fund was, in effect, simultaneously loaned back to the General Fund at going interest rates. Thus, the only assets the Fund ever had were amounts due to it from the General Fund. There were no bank or investment accounts specifically identified with the Fund.

A continuing concern to us is the apparent lack of required authorization for the lending of money from the Budget Stabilization Fund to the General Fund, and for the payments from the General Fund to the Budget Stabilization Fund of amounts in lieu of interest. Since the enactment of section 9(3) of the *Financial Administration Act* on July 17, 1989, the approval of the Lieutenant Governor in Council has been required for any transfer from a special fund to the General Fund of money requiring repayment, and for the formula upon which any amounts paid in lieu of interest are to be determined.

There have been no orders-in-council approved by the Lieutenant Governor in Council pursuant to section 9(3) of the *Financial Administration Act*. Therefore, the $773 million of Budget Stabilization Fund monies loaned to the General Fund during the 1989/90 and 1990/91 fiscal years was not authorized as required. Similarly, the basis for determining the $325 million of amounts paid as interest by the General Fund to the Budget Stabilization Fund during those same two fiscal years did not receive the required authorization.

## Accounting at the Ministry of Transportation and Highways

The Ministry of Transportation and Highways developed a new financial information system which came into use during the past fiscal year. The system failed to send complete and accurate data to the government's central accounting system and to receive the required data from it. Problems during our auditing of transactions related to this ministry system forced us to discontinue our audit work temporarily in the ministry in March 1991. At that time, the unexplained differences between ministry records and those kept by the central accounting system were substantial.

The ministry cleared some of the problems in its financial information system by the end of the 1990/91 fiscal year. However, it was not until late July 1991—four months after the end of the fiscal year—that records in the two systems were substantially reconciled. One exception to this reconciliation was the ministry's accounting for contract holdbacks.

The ministry keeps records of amounts retained as holdbacks from progress payments on construction contracts. A summary of these records is maintained for the ministry in the central accounts of the government. At the time of our 1991 audit, the difference between the two records was over $1.5 million, indicating that some contract holdbacks had not been properly recorded in either the ministry or the central government's accounts. We examined the ministry's records and found many inaccuracies, and concluded that extensive work would be required before these records could be audited. Ministry officials have assured us that they will clear up their records by investigating all account balances.

We have recommended that the Ministry of Transportation and Highways continue its efforts to ensure the prompt recording, completeness, and accuracy of its financial information, especially that which is transmitted to the central accounting system of the government.

## Change in Government Accounting Policy

In our 1991 Annual Report we commented on "Changes in Accounting Policy" which had been brought into effect by the government during its 1989/90 fiscal year.

One of the changes that concerned us was the method of treating valuation allowance changes as "non-operating" transactions. Valuation allowances are deductions made from the book value of assets, such as receivables, investments, and loans, to reduce them to their estimated realizable value. We stated in our 1991 Report that we believed the additional financial burden associated with not collecting amounts owing to the government, such as revenue receivables, loans, and advances, to be a legitimate operating cost of the government.

Upon review, the Office of the Comptroller General agreed with this opinion and recommended to Treasury Board that valuation allowance changes be reported as operating transactions.

Treasury Board subsequently approved of this revised treatment, and it was implemented in the government's accounts and financial statements for the 1990/91 fiscal year. As a result of retroactive application of this change, total 1989/90 General Fund operating expenditure was increased by $22 million. There was no change, however, to the General Fund net revenue of $136 million for that fiscal year.

This was the only major change to the government's significant accounting policies for the 1990/91 fiscal year.

## Defining the Government Reporting Entity

In our 1991 Annual Report, we reported that the government had adopted the criteria recommended by the CICA for determining which organizations should be included in the government's financial reporting entity. The criteria call for including in the financial statements those organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature, and that are owned or

controlled by the government. British Columbia thus became one of the leading government jurisdictions in the country to adopt the form of reporting entity considered to be the best way of providing a clear overview of the financial affairs and resources for which the government is responsible. At the same time, we expressed concern about the exclusion of certain organizations from the new form of government reporting entity.

Since then, some of the organizations that had previously been excluded have now been properly included in the government's 1990/91 Summary Financial Statements, for example:

- B.C. Health Care Risk Management Society
- B.C. Summer and Winter Games Society
- British Columbia Housing and Employment Development Financing Authority
- Credit Union Deposit Insurance Corporation of British Columbia

In our opinion, however, the following organizations also meet the government's reporting entity criteria, and accordingly should be included in the financial reporting entity:

- Advanced education institutions, including:
  - the province's public universities
  - colleges and provincial institutes
  - the Open Learning Agency
- Workers' Compensation Board

The government has stated that advanced education institutions are excluded from consolidation because they are dissimilar to other government organizations in objectives, operations, and financial reporting practices. At the same time, government financial officials have agreed that, except for the universities, these organizations meet the criteria for inclusion. According to the CICA's Public Sector Accounting Statement 4, "Regardless of the form of an organization or the nature of its activities, if the government owns or controls an organization, the government is accountable for that organization's financial affairs and the use of its resources." Our analysis leads us to believe that all of the above-noted advanced education institutions, including the universities, meet the government's reporting entity criteria.

The Workers' Compensation Board (WCB), although established and controlled by the government, is not included as a government enterprise in the Summary Financial Statements. The Insurance Corporation of British Columbia, similar in operations to the WCB, is included. The CICA's statement of public sector accounting recommendations specifically refers to both "public automobile insurance and workers' compensation" organizations as examples of government enterprises. Alberta's consolidated financial statements have included its Workers' Compensation Board for many years; Manitoba's summary financial statements now include that province's Workers Compensation Board; and the financial statements of the governments of the Yukon Territory and the Northwest Territories also include the Workers' Compensation Boards for those jurisdictions.

In British Columbia, senior officials of the WCB have advised us that they support the inclusion of their organization in the government's financial reporting entity, on the modified equity basis. Officials of the Ministry of Finance and Corporate

Relations have also agreed that the WCB meets the CICA's criteria. However, the ministry officials also state that, since the Board's role is to act as a trustee for funds it administers on behalf of its contributors, its financial information is more properly presented as a trust fund under government administration, and not as part of the government's financial reporting entity.

We believe that, rather than merely being a trustee of contributors' premiums, the WCB is in the business of administering a comprehensive workers' compensation program and, accordingly, should be included in the reporting entity as a government enterprise.

In addition to the advanced education institutions and the WCB, there is another large group of organizations that requires further consideration for inclusion in the government's financial reporting entity: the province's public hospitals.

Public hospitals in British Columbia appear to be fully accountable to the government for the management of their financial affairs and resources. This is shown by the extensive financial accountability requirements imposed on hospitals by the Minister and the Ministry of Health, as set out in the *Hospital Act*, the *Hospital Insurance Act*, and the related regulations and ministry policy directives. Therefore, in keeping with CICA public sector accounting recommendations and the government's own reporting entity criteria, we believe that the exclusion of hospitals from the reporting entity should necessarily be based on an absence of both ownership and control by the government.

Information obtained from the Ministry of Health indicates that the government does control some of the approximately 130 public hospitals in the province by virtue of having appointed all, or a majority, of their board members. While some of these appointments may be temporary, according to ministry officials, others are long term. As government does not control many of the administrative boards of the public hospitals, the matter of hospital ownership becomes very fundamental to this issue of inclusion in, or exclusion from, the government's financial reporting entity.

We believe the government should analyze further the questions of accountability, control and, in particular, ownership of the province's public hospitals before deciding whether or not to include this large group of provincial organizations in the government's summary financial reporting entity.

We are continuing to study this issue with government officials so that agreement can be reached, based on accepted criteria, as to which organizations together should compose the government's reporting entity and be reflected in its Summary Financial Statements.

## Accounting for Government Transfers

In November 1990, the CICA issued Public Sector Accounting Statement 7, titled "Accounting for Government Transfers." This statement of accounting standards for the public sector contains 14 recommendation paragraphs relating to the accounting treatment of "entitlements, shared cost agreements, grants, and other government transfers."

These four types of transfers are described as follows:

- Entitlements are transfers, or payments, that a government must make if a recipient meets certain specified eligibility criteria. Such transfers are non-discretionary in the sense that both "who" is eligible to receive the transfer and "how much" is transferred are prescribed in legislation or regulations. Entitlements include amounts to be paid to individuals, such as social assistance payments, and to other governments or institutions, such as per capita payments to local governments.

- Shared cost agreement transfers are reimbursements of eligible expenditures under an agreement between a transferring government and a recipient. In this situation, the recipient must have spent money, in accordance with the terms of a previously negotiated and agreed upon contract or agreement, to be entitled to a reimbursement.

- Grants are transfers of funds that are made at the government's discretion. The government making the transfer can decide whether or not to make the transfer, the conditions to be complied with, how much money to transfer and to whom the transfer should be made. Grants include those for cultural, research, and economic development purposes.

- Other government transfers are payments that have the characteristics of more than one of the three major types of transfers referred to above. For example, some transfers to hospitals and universities may have the characteristics of both entitlements and grants. There may be, in such instances, statutory responsibility to maintain certain programs, but there is also government discretion as to amounts and methods of distributing funds to those programs.

This matter of accounting for government transfers relates to a very significant portion of government expenditures, and is very important, requiring careful government consideration. In British Columbia we have, for many years, had two major categories of government expenditures that are directly related to the types of government transfers now being proposed by the CICA for government expenditure accountability. These two expenditure categories are "grants" and "contributions," which make up fully two-thirds, or more than $11 billion, of total government expenditures in the 1990/91 fiscal year.

There are several benefits in moving to meet the new accounting treatment for recording and reporting government transfers. For example:

- The comparability of where government expenditures are going, from jurisdiction to jurisdiction, should be improved with the more consistent approach.

- Categorization of these significant government expenditures should become clearer.

- The accrual of expenditures should be provided in a more understandable and uniform manner from one fiscal period to another, and from each government organization to each transfer recipient.

In regard to the last benefit mentioned above, we encountered an extraordinary situation during our

1990/91 fiscal year audit of the government's accounts and records. This involved the payment of $2.4 million in interest on an amount ($34.5 million) which the government had not, at the time of the interest payment, recorded as a liability. The interest related to a properly approved lottery grant which had not been recorded as it had not yet met the existing government accounting policy criteria for the recording of grants. So, as a result, there was a large amount of interest calculated and paid out, relating to a liability that, in the same fiscal year, went unrecorded and undisclosed.

In our opinion, the current government accounting policy for the recording of grants is not appropriate in circumstances such as this, as it does not call for recognition in the accounts and records of all grants for which it has taken responsibility.

The Office of the Comptroller General has taken the initiative on this subject. In mid-summer 1991, it contacted the senior financial officers of all ministries, as well as Treasury Board Staff, with background information and proposals regarding the content of the CICA public sector accounting statement on government transfers. More meetings and information exchanges are planned by government officials to consider prospects for implementing the CICA recommendations.

We encourage these developments for implementing these important public sector accounting recommendations on government transfers, and look forward to improved accountability in this, the largest portion of government expenditures.

## General Standards of Financial Statement Presentation for Governments

Public Sector Accounting Statement 3, issued by the CICA in 1986, includes 35 recommendations on general reporting principles and standards for the disclosure of information in summary financial statements prepared by governments.

In each of our Annual Reports since 1988 we have provided assessments of the extent to which we considered the government had complied with the recommendations in this accounting statement.

Based on the government's 1990/91 Summary Financial Statements, we currently consider that 25 of the recommendations are being fully complied with, and the remaining 10 are being partially complied with. These results are generally in line with the current status of financial reporting practices elsewhere in the country.

The public sector accounting recommendations being partially complied with are referred to below.

- *Financial statements should be issued on a timely basis.*

  The government's financial statements for the fiscal year ended March 31, 1991, were completed by the end of September 1991, and were included in the 1990/91 Public Accounts released to the public on December 30, 1991.

- *The statement of financial position should report a government's liabilities at the end of the accounting period segregated by main classifications, such as: accounts payable and accrued*

*liabilities; employee pension obligations; borrowings; and loans and advances from other governments.*

Unfunded pension liabilities have not been set up in the accounts, although they are referred to in a financial statement note on contingencies and commitments. Further comment on this topic appears elsewhere in this report, in the section entitled "Unfunded Pension Liability: Reservation of Audit Opinion."

- *Financial statements should disclose adequate information about the nature and terms of a government's liabilities.*

  See comments under the preceding recommendation.

- *Financial statements should disclose adequate information about the nature and terms of a government's financial assets together with any valuation allowances.*

  Repayment dates and terms for loans and advances are not disclosed.

- *Valuation allowances should be used to reflect financial assets at their net recoverable or other appropriate value.*

  Valuation allowances have not been provided with respect to amounts recoverable only through future appropriations. Further comment on this topic appears elsewhere in this report, in the section entitled "Amounts Recoverable Through Future Appropriations."

- *Financial statements should disclose information to describe a government's material financial commitments at the end of the accounting period.*

  Material financial commitments are not clearly defined by the government, leading to inconsistency in the reporting of this information in the financial statements. In those circumstances where physical asset acquisitions involve large undertakings, the estimated total multi-year project costs are not provided.

- *Financial statements should disclose information to describe a government's acquired physical assets on hand and available for use by the government at the end of the accounting period.*

  A "Physical Assets" financial statement note is now included, which reports on the government's physical assets acquired in the fiscal year. There is, however, no information reported on the government's acquired physical assets on hand and available for use. A discussion paper entitled "Accounting and Budgeting for Physical Assets" has recently been drafted by government officials on this matter.

- *The statement of revenues and expenditures should report a government's revenues of the accounting period segregated by significant types of revenues from taxes, non-tax sources and transfers from other governments.*

  Sources of the significant revenue types, such as personal and corporate income taxes, social services tax revenues, and established programs financing from the federal government, are not shown in the Summary Financial Statements.

- *Financial statements should present a comparison of the actual results with those originally forecast by the fiscal plan.*

  A partial comparison of net budget and actual results is included in a note to the financial statements.

- *Planned results should be presented on a basis consistent with that used for actual results.*

Planned results are presented in summary form in the General Fund Financial Statements. No planned results information is presented in the government's other financial statements.

Our Office supports the CICA's general standards of financial statement presentation for governments. We therefore encourage the government to implement fully the above-noted public sector accounting recommendations in its Summary Financial Statements.

The government's General Fund Financial Statements and Consolidated Revenue Fund Financial Statements would also benefit by conforming with many of the standards established in Public Sector Accounting Statement 3. However, some of the recommendations, such as disclosure of the gross amounts of revenues and expenditures, are being only partially followed in those financial statements.

We encourage the government to adopt fully the general standards of financial statement presentation for governments in all its formal sets of financial statements.

# AUDIT OF PUBLIC BODY FINANCIAL STATEMENTS

## INTRODUCTION

The government's Summary Financial Statements for the 1990/91 fiscal year include the results of both the financial activities of central government and the operations of 41 government organizations and enterprises owned or controlled by the government.

The assets and expenditures of government organizations and enterprises amount to $19.8 billion and $8.2 billion, respectively. The audits of 24 of these public bodies, with combined assets of $16 billion and expenditures of $5.6 billion, were conducted by private sector auditors. Three small public bodies were unaudited. The other 13 public bodies, with total assets and expenditures of $2.8 billion and $1.8 billion, respectively, as well as the Liquor Distribution Branch (assets $60 million; expenditures $889 million) were audited by the Auditor General.

Five organizations were included in the Summary Financial Statements for the first time. Four of these were audited by private sector accounting firms. They are the B.C. Health Care Risk Management Society, the British Columbia Hazardous Waste Management Corporation, the B.C. Summer and Winter Games Society, and The Education Technology Centre of British Columbia. The fifth organization, the British Columbia Housing and Employment Development Financing Authority, was audited by the Auditor General. The audit of the Provincial Rental Housing Corporation was transferred from this Office to a private sector auditor during the 1990/91 fiscal year.

In addition to auditing a number of the public bodies included in the Summary Financial Statements, our Office conducted the audits of a further 21 public bodies with assets of $25.5 billion and expenditures of $20.9 billion. These include the newly created University of Northern British Columbia and two new Province of British Columbia Pooled Investment Portfolios: Fund ST3 and Active Canadian Equity Fund.

A list of the public bodies audited by the Auditor General is included in Appendix D of this report. Entities whose financial statements are audited by other auditors, and whose financial statements are included in the Public Accounts, are listed in Appendix E.

## AUDITS OF PUBLIC BODIES

Both the management and the auditors of a public body have responsibilities associated with the public body's financial statements. Management is responsible for determining the accounting and disclosure policies appropriate for the organization's activities, and for establishing the form and content of its financial statements. The auditor's

responsibility is to express an opinion as to whether the financial statements present fairly the financial position and operating results of the organization, in accordance with appropriate accounting principles.

In determining an organization's accounting policies, management selects accounting principles which are considered appropriate for the organization. In this regard, we commented in our 1991 Annual Report on the work of the Accounting Standards Committee and the Public Sector Accounting and Auditing Committee of the CICA in developing generally accepted accounting standards for non-profit organizations, including those entities operating in the public sector. These standards were developed with the active participation of officials of non-profit organizations, as well as their auditors. They are intended to bring consistency to the financial reporting of non-profit organizations, and so provide more meaningful and comparable information by which each organization may be measured.

Many public sector organizations adopted these standards in preparing their financial statements for the 1991 fiscal year. Others, however, had theoretical and practical difficulties in adopting certain of the recommendations, and so did not fully apply them in their 1991 general purpose financial statements.

Many of the difficulties related to a significant concept underlying the development of these standards: accrual accounting. This concept requires, among other things, that the financial statements for an accounting period reflect the full cost of providing the services delivered by an organization in that period. Thus, the financial statements should include the full cost of such expenses as vacation pay and retirement benefits incurred up to the date of the financial statements, even if they have not actually been paid as at that date.

Accrual accounting had not, in the past, been applied to this extent by many public sector non-profit organizations, and in particular by colleges, universities and other educational institutions in British Columbia as well as in the rest of Canada. Instead, for a number of years, many of these organizations followed bases of accounting which emphasized the matching of expenditures with the funds received to finance them.

In some cases, these bases had been specified in government financial reporting directives, such as those issued to colleges in British Columbia by the Ministry of Advanced Education, Training and Technology. In other cases, the organizations used accounting guidelines provided by such groups as the Canadian Association of University Business Officers. These guidelines had been developed to address the absence, at that time, of generally accepted accounting principles for the organizations concerned. In many respects, the guidelines were oriented toward presenting financial information on a funds-flow basis of accounting, rather than on the basis of measuring the full cost of providing services.

It followed that, in 1991, a number of non-profit organizations in the public sector across Canada had difficult choices to make concerning the content of their financial statements. Many of those that decided to comply with accounting directives from governmental funding and regulatory agencies received auditors' opinions on their 1991 financial statements which contained reservations concerning their failure to comply with generally accepted accounting principles.

Included in these organizations were most colleges in British Columbia which, in following government directives as to their basis of financial reporting, did not fully provide for costs of vacation pay, sick leave and debenture interest to March 31, 1991.

Also receiving audit opinions with reservations on their 1991 financial statements were a number of Canadian universities (including one in British Columbia) which, while working to resolve certain issues relating to the new standards, had continued in the meantime to follow their traditional basis of accounting.

In response to the developments taking place in non-profit accounting, ministries of the government of British Columbia have been reviewing the financial reporting required of non-profit organizations which are accountable to them for the use of government resources. In some cases, such as for hospitals, changes in reporting requirements have been made with the goal of achieving consistency with generally accepted accounting principles . In other cases, such as for colleges, work is continuing in order to resolve certain difficulties identified in implementing the recommendations of the CICA.

We encourage the government's continuing efforts to harmonize its financial information requirements with generally accepted accounting principles for non-profit organizations in the public sector.

## British Columbia Hydro and Power Authority, Preferred Funding

In our 1989 Annual Report, we commented on the different treatments given by the Province and the British Columbia Hydro and Power Authority (B.C. Hydro) of a long-term advance the Province made to B.C. Hydro in the 1988/89 fiscal year. The $235 million in "preferred funds" was provided to B.C. Hydro by the Province through its Fiscal Agency Loan Program, a program under which the Province borrows money and then lends it to a government body.

The status of the differing financial statement treatments previously referred to remains unchanged. The government includes the advance in its financial statements as a fiscal agency loan receivable; B.C. Hydro continues to show the amount in its financial statements as "Preferred Funding," separate from long-term debt and other liabilities. However, payments by B.C. Hydro to the Province toward the cost of providing the funds are now referred to as "Distributions on the Preferred Funding" instead of "Dividend" as stated in B.C. Hydro's prior years statements. As B.C. Hydro believes the preferred funding to be in the nature of equity rather than debt, it has not established the related sinking fund as required by section 42(15) of the *Hydro and Power Authority Act*.

In September 1991, after the approval of B.C. Hydro's financial statements for the fiscal year ended March 31, 1991, the Accounting Standards Committee of the CICA issued an exposure draft titled "Financial Instruments." This draft clarifies what might be considered the liabilities or, alternatively, the equity of an organization. Although the recommendations made in the exposure

draft have not yet become a required standard, they provide a clearer indication as to where the accounting profession stands on this issue. Paragraph .040 of the draft states that:

> *The classification of a financial instrument, or its component parts, as between liabilities and equity should reflect the substance of the contractual arrangement on initial recognition. That classification should be consistent with the definitions of a financial liability and an equity instrument.*

The definitions of a financial liability and an equity instrument that have been adopted by the exposure draft are as follows:

> *(a) A financial liability is any liability that is a contractual obligation:*
>
> *i) to deliver cash or another financial asset to another entity; or*
>
> *ii) to exchange financial instruments with another entity under conditions that are potentially unfavorable.*
>
> *(b) An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.*

The terms of agreement of the advance to B.C. Hydro call for a scheduled settlement and redemption date and give the Province the ability to require settlement or redemption. We believe these conditions meet the definition of a financial liability and not of an equity instrument.

Therefore, we recommend that the Province and B.C. Hydro again review the funding transactions to confirm the nature, the appropriate financial statement presentation, and the need for a sinking fund.

## Unrecorded Lottery Grant Payments

During the 1990/91 fiscal year, the British Columbia Lottery Corporation (the Lottery Corporation), the Crown agency responsible for the conduct of lotteries in the province, made payments totalling $6.6 million directly to various charitable and community organizations.

The payments represented a portion of the proceeds from the sale of "Breakopen" tickets, a mini-lottery game marketed and promoted by the corporation. Retailers of the tickets, besides earning commissions on their sales, were allowed to designate a charitable or community organization to be the recipient of a further payment based on the value of tickets sold. Frequently the retailer was itself a charitable or community organization, and accordingly would also be the recipient of this additional payment.

Since these payments were actually grants, rather than sales commissions, they were treated as an allocation of net income in the accounts of the Lottery Corporation, and described as "Paid on behalf of the Province of British Columbia" in its audited financial statements. None of these transactions was recorded in the Lottery Fund special account or elsewhere in the government's accounts.

The *Lottery Act* provides that "all proceeds from the conduct and operation of lotteries by the Province" shall be paid into a special account called the Lottery Fund, and that payments of monies out of the fund shall be made and reported in a certain manner. The Lottery Fund special account forms part of the province's Consolidated Revenue Fund.

Our concerns about this matter are threefold. First, the grant payments were made by the Lottery Corporation, apparently in contradiction of the *Lottery Act* and without the normal review process being applied by the responsible government ministry. This process is designed to ensure that grants are made only to qualified charities and community organizations. Second, the payments were not recorded and reported as Lottery Fund special account transactions. And third, details of the grant payments were not publicly reported, as would be the case if they had been handled through the Lottery Fund special account.

We understand that the Lottery Corporation has amended its accounting treatment to record these grants as selling commissions. Notwithstanding the accounting treatment, the payments continue to be made, and the three issues still exist.

We recommend that the Lottery Corporation and the Ministry of Government Services take the necessary steps to ensure future compliance with both the *Lottery Corporation Act* and the *Lottery Act* in regard to these grant payments.

## Statutory Pension Plans

In last year's Annual Report, we commented on certain funding and financial reporting issues concerning pension plans maintained according to acts of the British Columbia legislature. These statutory plans, consisting of the Public Service Superannuation Plan, the Municipal Superannuation Plan, the Teachers' Pensions Plan, and the College Pension Plan, have accumulated unfunded liabilities totalling approximately $3 billion (Table 3.3).

For this report, we have summarized and updated the issues discussed last year. These include the funding of the pension plans, inflation indexing, financial reporting for the pension plans, and valuation of the MLA Superannuation Account.

### Funding the Pension Plans

The Act establishing the Public Service Superannuation Plan makes the government responsible for guaranteeing the payment of pensions should there be a shortfall of funds available in any year to pay pensions. The *Pension (College) Act* also provides for a guarantee, subject to the approval of the Lieutenant Governor in Council. The Acts governing the Teachers' and the Municipal plans do not involve the government as guarantor. However, since the government has sole responsibility for establishing plan contribution rates, we believe there may be an expectation by those concerned that the government would also fund deficiencies in these two plans, even though it has no statutory obligation to do so. These deficiencies total approximately $2.7 billion.

The government, as administrator, has a trustee responsibility for all statutory plans. This responsibility

implies a duty to ensure that funding of statutory plans through employer and employee contributions is sufficient to maintain the pension plans' finances, and that funding is done in an orderly manner. The government's current funding policy for these plans is to maintain the unfunded liabilities at a constant percentage of payrolls.

To determine the financial condition of the pension plans, independent actuaries perform periodic valuations of the future benefits to be paid under the plans and of the assets that will be available to pay the benefits. Where the present value of prospective pension benefits exceeds the present value of both estimated future contributions and existing fund assets, an unfunded actuarial liability is said to exist. An actuary may recommend changes in the existing contribution rates if a funding problem is perceived.

Our review of recent actuarial valuations of each of the statutory pension plans indicates that, except for the Public Service Superannuation Plan, the actuaries conclude that the current contribution rates are somewhat less than those required under the funding policy approved by the government (see Table 3.3). During the periods covered by these valuations, the absolute amounts of the unfunded liabilities of the Municipal and Teachers' Plans have risen significantly. The actuaries of these two plans have recommended that the contribution rates be increased to at least those required under the government funding policy. The actuary for the College Pension Plan has recommended that contribution rates for that plan also be increased, even though there has been a recent decrease in the unfunded liability of the plan.

We are concerned that, to date, the government has not adopted the actuaries' recommendations to increase contributions to the plans, including increases to the level required by the government's own policy for funding. The Teachers' and Municipal Plans are of particular concern because there is no statutory guarantee provision should the plans fail. Although the actuaries believe that, for all plans, there is little risk of plan failure, it remains that inadequate funding today may place an unfair cost burden on future contributors and taxpayers.

### Inflation Indexing

Each statutory pension plan provides basic pension benefits as well as inflation indexing. To fund these benefits, member and employer contributions include both a basic component and an inflation indexing component. Amounts contributed for inflation indexing are accumulated in Inflation Adjustment Accounts. Legislation covering each plan states that indexing shall only be paid if there is money available in these special accounts.

We believe that most plan members assume they are guaranteed inflation indexing following retirement. Because, in fact, there is no guarantee in the statutory plans that inflation indexing will be paid, we recommend that the government regularly advise plan members on the current status of the special accounts.

### Financial Reporting for Pension Plans

In March 1990 the CICA issued accounting recommendations for pension plans, to be effective for the fiscal years beginning after July 1, 1990. The recommendations include a requirement for certain information which is not presently disclosed in the financial statements of the various pension plans. The CICA believes that

the newly required disclosures provide important information for plan members. In addition, it has recommended the use of a particular actuarial method for calculating the accumulated unpaid benefits earned by plan members.

During the past year, the Superannuation Commission has made some changes to the financial statements to comply with the recommendations of the CICA. However, further changes to the content and format of the statements will be required this year to fully comply with the CICA standards, particularly with respect to the calculation and disclosure of information about benefits earned.

## Actuarial Valuation of the Members of the Legislative Assembly (MLA) Superannuation Account

The *Legislative Assembly Allowances and Pension Act* does not require actuarial valuations of the MLA Superannuation Account. Accordingly, no such valuation has been performed to date.

It is possible that an unfunded liability exists with respect to pension benefits earned to date by MLAs. In the interest of public accountability, we recommend that actuarial valuations of the account be carried out periodically, and that the results of such valuations be disclosed in the Public Accounts.

**TABLE 3.3**

Summary of Public Service Statutory Pension Plans

*Sources: Plan Financial Statements and Actuarial Reports*

| Statutory Plan | Unfunded Liability | | | | Contribution Rates[1] |
|---|---|---|---|---|---|
| | Prior Valuation (Deficit) | Latest Valuation (Deficit) | Latest Valuation Date | Change Decrease (Increase) | Additional Contributions Recommended by Actuary |
| | $ | $ | | $ | % |
| Public Service Superannuation Plan | (456,062,000) | (437,875,000) | Mar.31,1990 | 18,187,000 | .25 |
| Municipal Superannuation Plan | (855,352,000) | (1,082,186,000) | Dec.31,1988 | (226,834,000) | 1.10 |
| Teachers' Pensions Plan | (1,392,116,000) | (1,605,045,000) | Dec.31,1987 | (212,929,000) | 1.11 |
| College Pension Plan | (60,891,000) | (29,814,000) | Aug.31,1988 | 31,077,000 | 2.14 |
| MLA Superannuation Account | **[2] | ** | ** | ** | n/a |

1 Combined employer and employee rates.

2 (**) No valuation performed. Amounts contributed are transferred to the Public Service Superannuation Plan (PSSP) when MLAs retire. Any shortfall between amounts held in the account and the benefits earned by MLAs at the retirement date is paid by the government into the PSSP. Pension benefits are paid to MLAs through the PSSP.

# PART IV
# OFFICE OF THE AUDITOR GENERAL

# PART IV
# OFFICE OF THE AUDITOR GENERAL

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## Role and Responsibilities of the Auditor General

The legislative mandate for the activities of the Office derives from the *Auditor General Act,* which came into force in 1976.

Details of the Auditor General's responsibilities, as set out in the Act, appear in Appendix A. A more concise description of the role of the Auditor General is found in the Office's Mission Statement, which reads:

### Mission Statement

**The Auditor General serves the citizens of the Province by providing independent opinions and evaluations on the financial and administrative management of the government and its related entities in the public sector. As well, he promotes improvement in public sector accountability.**

**To fulfill his responsibilities, the Auditor General has established a professional office committed to the principles of objectivity, integrity, and service to the public.**

Comments expanding on the various aspects of the Mission Statement are presented in Appendix B.

## Operation of the Office

### Organization

The Office is organized into four divisions. Three of these, each under an Executive Director, deal mainly with the Office's audit operations. They are:

- the Central Attest Audit Division, which is responsible for coordinating the audit of the government's financial statements, and for developing methodology and practices for these audits;
- the Crown Entity Attest Audit Division, which is responsible for undertaking most of the public body financial audits assigned to the Office, and for the developing methodology and practices for those audits; and
- the Value-for-Money Audit Division, which carries out value-for-money audits and special projects.

The fourth division, which is a responsibility of the Deputy Auditor General, is concerned with the administrative, financial and information technology activities of the Office.

Figure 4.1 provides an overview of the Office's organization as at December 31, 1991. This organization has remained essentially unchanged during the year.

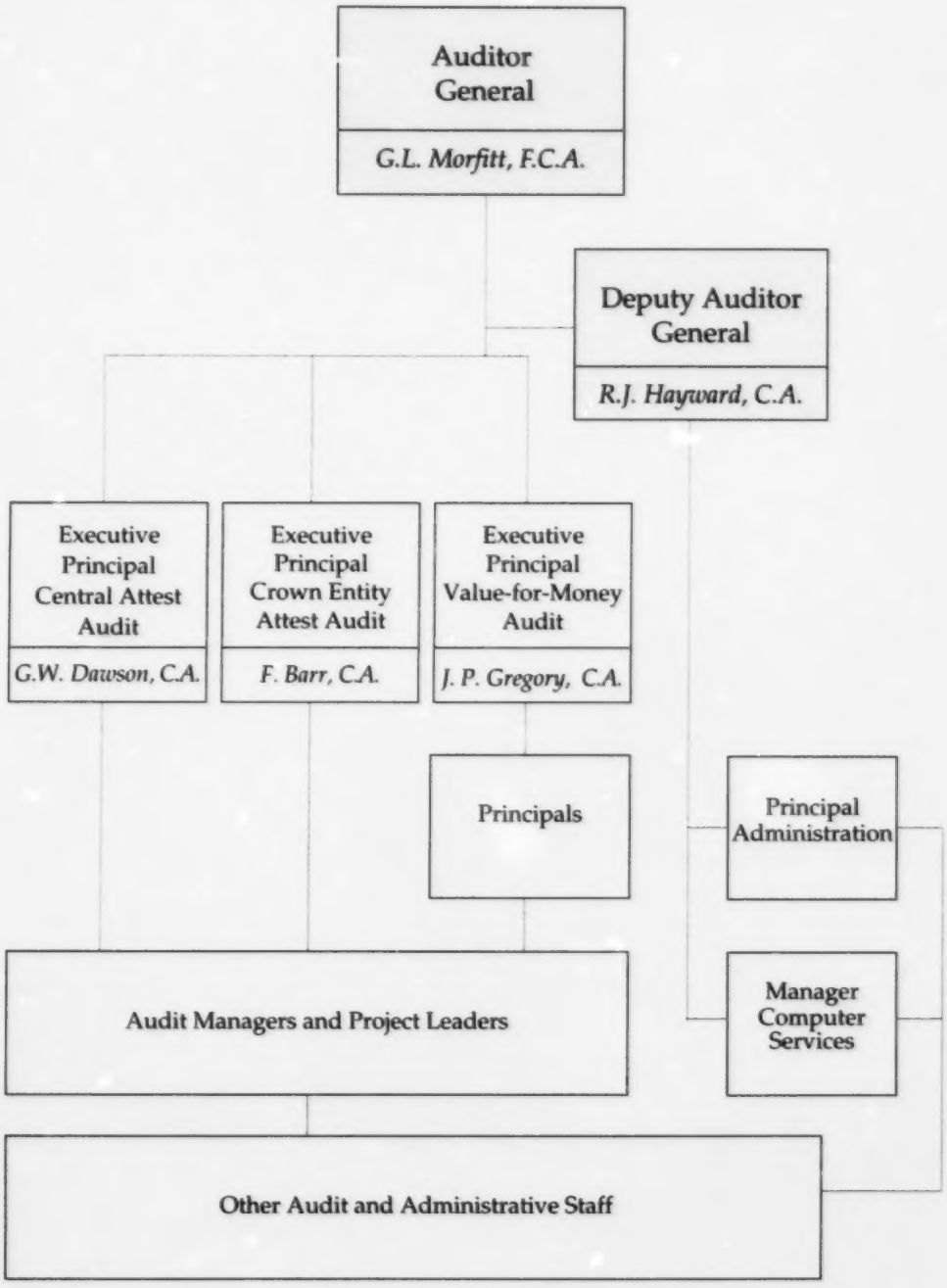
### Personnel

The staffing situation of the Office continues to be a matter of concern. In our budget request to Treasury Board for the 1992/93 fiscal year we asked that an additional ten positions be authorized in order to accommodate the continuing increase in the number and size of audits assigned to the Office, and to enhance our capacity to conduct value-for-money audits. This request was not approved by the government, despite the fact that the present authorized staffing level of 90 FTEs is 2 positions less than that authorized in the 1986/87 fiscal year. Over the 6 year period since then, dollars subject to audit have increased from $80 billion to

**FIGURE 4.1**

Organization of the Office of the Auditor General

## ORGANIZATION OF THE OFFICE OF THE AUDITOR GENERAL
DECEMBER 1991



an estimated $180 billion, an increase of 125%. Also, the continuing greater emphasis on value-for-money and other non-financial statement audit work exacerbates this staffing problem. Accordingly, it is our opinion that we continue to lack the capacity to fully meet the audit expectations of the Legislative Assembly and the public.

The Office continued to experience a relatively high rate (17%) of staff turnover during 1991. While this factor adds to our recruitment, training and other costs, we believe there is a positive aspect to be considered in that most of those leaving our employ have moved to responsible positions in various government ministries and public bodies.

Recruitment necessary to maintain our staffing occurred on two fronts. During the year we hired seven staff with professional qualifications. In addition, we continued to recruit on university campuses for superior candidates interested in pursuing programs leading to professional accounting qualifications. We hired six new staff through this process during the year.

In addition, during 1991 we became associated with the University of Victoria Co-operative Education Programme. Under that programme we employed a Computer Science/Math Co-op student for a four month work term. This enabled the student to gain practical work experience, and helped the Office carry out a number of computer related projects. This program has proven beneficial, and we are continuing to participate in it.

Part of our personnel development plan has involved our staff secondment program. Three of our employees were on secondment to various government ministries as at December 31, 1991. This program serves to broaden the experience of our staff so that they may become more familiar with the operating aspects of government, and thereby contribute to the effectiveness of our future audit work.

## Professional Development and Training

An important measure of a professional office is its ability to maintain a high standard of performance in its field of endeavor. Accordingly, we are committed to an extensive program of staff training and professional development in all aspects of legislative auditing. In addition to the normal training that is required for the conduct of financial audits, the Office undertakes to develop expertise in the unique areas of value-for-money auditing and auditing for legislative compliance. During the year, each staff member received an average of 40 hours of professional development and training.

Our program follows two main streams, the first designed for our professionally qualified staff, and the second for our student-level staff. In addition, several course offerings of broad general interest are made available to all staff.

For our professional staff we provide accounting and auditing courses of an advanced technical nature, courses on supervisory and interpersonal skills, and various courses on microcomputers and computer auditing.

Staff at the student level, in addition to receiving instruction on matters specific to the work of the Office, are enrolled in courses leading to the professional designations awarded by the Institute of Chartered Accountants or the Certified General Accountants Association. During the year, 10 staff

members successfully completed the academic requirements for their professional accounting designations.

## Quality Assurance Program

The integrity of the work of the Office is fundamental to its purpose. It is therefor essential that the audit work be conducted in a manner which meets or exceeds professional auditing standards.

In order to ensure that these standards are achieved we have had in place for some time a formal audit quality assurance program. This program is based on a peer review approach involving professionals from both inside and outside the Office.

Over the past several years we have conducted, or had conducted, the following reviews:

- a review of our financial statement audit work by practice review officials of the Institute of Chartered Accountants of British Columbia:
- an internal review of our public body financial statement audit work:
- a review of our computer audit activity by a senior representative of the Office of the Auditor General of Canada;
- an internal review of our value-for-money audit work; and
- an external review of our value-for-money audit work by a national firm.

The results of all these reviews have provided the assurance necessary with respect to the quality of our Office's work, as well as advice for the improvement of our activities in the future.

## Information Technology

Ministries of government, Crown corporations, and other public bodies audited by the Office increasingly rely on electronic technology in the conduct of their business affairs.

Auditing in this highly computerized environment calls for staff who are trained and equipped to analyze complex computer-based systems, and deal with accounting records which are largely maintained in electronic form. Accordingly, we endeavor to ensure that all staff achieve a reasonable level of computer literacy, and are supported by specialist staff with a full spectrum of knowledge in this field. We have also tried, within the confines of continuing budgetary restraint, to equip our staff with the microcomputers and other equipment necessary to carry out this work.

Recognizing that dramatic advances have been occurring in the field of information technology, we commissioned a firm of independent consultants to prepare an Information Technology Plan for the Office. Their report, delivered to us in late 1990, confirmed the general direction now being pursued by the Office, recommended further initiatives, and strongly advised timely implementation of the plan.

A request for funding the first year of the plan in the amount of $280,000 was included in the Office's budget request for the 1991/92 fiscal year. In determining the Office's budget for 1991/92, the government authorized an expenditure of $67,000 to begin implementation of the plan. In order to compensate for this reduction, and to keep abreast of continuing technological developments, an amount of $290,000 was included in the Office's budget request for the 1992/93 fiscal

year. The Office's 1992/93 budget for this purpose has been reduced to $140,000.

It is a continuing cause for concern that equipment and related software essential to the efficient conduct of our audit work cannot be acquired on a timely basis. We are hopeful that future budget allocations will enable the Office to be properly equipped to carry out its legislated mandate.

## Finance

Net expenditure for the operation of the Office for the fiscal year ended March 31, 1991, was $5,880,875, made up as follows:

| | |
|---|---|
| Salaries and benefits | $4,766,370 |
| Operating costs | 976,179 |
| Asset acquisitions | 112,962 |
| Grants and contributions | 47,000 |
| | 5,902,511 |
| Recoveries | 21,636 |
| | $5,880,875 |

In accordance with the *Auditor General Act*, the accounts of the Office of the Auditor General must be audited by an auditor appointed by the Treasury Board. The auditor's report on the accounts for the fiscal year ended March 31, 1990 was tabled in the Legislative Assembly by the Speaker on March 12, 1991. The audit of the accounts of the Office for the fiscal year ended March 31, 1991 is currently being conducted.

## Professional Activities

Employees of the Office are actively involved with a number of professional and other associations whose activities are relevant to the work of the Office. For some, this involvement takes the form of executive and committee work; for others it entails research and other projects of a technical nature. These organizations include the following:

- Institute of Chartered Accountants of British Columbia
- Certified General Accountants Association of British Columbia
- Society of Management Accountants of British Columbia
- Canadian Comprehensive Auditing Foundation
- Canadian Evaluation Society
- EDP Auditors Association
- Financial Management Institute of Canada
- Institute of Internal Auditors
- Institute of Public Administration of Canada
- Law Society of British Columbia

Noteworthy in this regard is the service of one of our Directors, Terence P. Mackian, on the Council of the Institute of Chartered Accountants of British Columbia and as chair of its Members in the Public Sector Committee.

We are also pleased to note that two other members of our staff, Gordon Dawson and Roger Brown, have developed and presented a professional development course for the Institute of Chartered Accountants entitled "Compliance with the Financial Information Act." The Act calls for the publication of specific financial accountability information by public sector organizations in the province. The course was based on the audit work done on this subject last year, and reported on in our last Annual Report. Representatives of hospitals, school districts, advanced education institutions, municipalities, Crown corporations, ministries, and others have attended the course. The success of the course is evidenced by the number of interested attendees, more

than 550, at 14 presentations delivered in 8 different communities.

### Community Service

Employees of the Office are also involved with and support many charitable, service and community organizations which serve to make life better for those less fortunate, or enhance the quality of life in the community. Often this means actual volunteer work, while at other times it involves the raising or donation of funds.

We are proud of the accomplishments of our staff, especially considering the relatively small size of our Office. With regard to their fund-raising activities we note that, during the past three years, they have raised almost $9,000 for Christmas charities through an annual Office gift auction. In addition, for 1992, our employees have pledged charitable donations of over $13,000 through the Provincial Government Employees' Community Services Fund. The Office was presented with an award in recognition of its 100% rate of participation in the Fund.

### Senior Staff Retirement

On April 24, 1992 the Deputy Auditor General, Mr. Robert J. Hayward, CA, retired from the Office and the Public Service of British Columbia.

Mr. Hayward was employed for almost 17 years with the Public Service, and served over 14 of those years with distinction as either Deputy Auditor General or Acting Auditor General for the Province. The contribution he made to the success of the Office and its programs of service to the Legislative Assembly and the public was substantial, and he will be greatly missed.

## Professional Affiliations of the Office

In addition to the involvement of individual staff members in various associations, the Office actively supports and participates in the work of three organizations whose aims are closely linked to those of the Office.

### Canadian Conference of Legislative Auditors

The Canadian Conference of Legislative Auditors is an association of auditors general and provincial auditors from the federal and provincial jurisdictions of Canada. Meetings are held annually so that those actively involved in legislative auditing can exchange information and experiences. Three members of our staff attended the 19th annual meeting held in August 1991 in Winnipeg, Manitoba.

The Canadian Council of Public Accounts Committees, made up of representatives from all the senior legislatures across the country, also met in Winnipeg at that time. A joint session of the legislators and auditors provided the opportunity for a useful exchange of views on subjects of mutual interest.

### Canadian Comprehensive Auditing Foundation

The Canadian Comprehensive Auditing Foundation is a national association established to help strengthen management, accountability and auditing in the public sector. Its interests extend to all organizations that are sustained by public funds to carry out public policy objectives.

The Foundation's work concentrates on the ways in which managers can ensure that good value for money is

obtained from their administrative practices; on the manner in which managers report their accountability for achieving economy, efficiency and effectiveness; and on the role audit plays in reporting.

The Office has been a member and supporter of the Foundation since its formation in 1980. The Auditor General is an elected member of its Board of Governors.

### Public Sector Accounting and Auditing Committee

The Canadian Institute of Chartered Accountants formed the Public Sector Accounting and Auditing Committee (PSAAC) in 1981 with the objective of improving and harmonizing public sector financial reporting, accounting and auditing practices. The Committee, made up of representatives from various levels of government, the accounting community, and other interested parties, carries out research and periodically issues recommendations on matters pertaining to these areas of interest.

To date, seven Public Sector Accounting Statements, four Public Sector Auditing Statements and two Public Sector Auditing Guidelines have been issued. These are now serving as authoritative references for those involved in accounting and auditing at the federal, provincial, and local levels of government throughout Canada. As well, several major research projects are in progress.

This Office actively supports the work of the Committee by reviewing and commenting on its research work. The Auditor General is currently serving as chair of the Auditing Section of PSAAC.

## Relations with the Public Accounts Committee

The *Auditor General Act* requires that the Annual Report of the Auditor General, after being tabled in the Legislative Assembly, be referred to the Public Accounts Committee. That Committee, made up of a cross-section of members of the Assembly, is empowered to examine and enquire into those matters referred to it by the Assembly. Traditionally, a major portion of the Committee's deliberations relates to the information contained in the Auditor General's Annual Report.

The consideration given to the report by the Committee plays a major role in ensuring that the public accountability obligations of ministries and agencies are properly carried out.

The last Annual Report of the Auditor General was tabled in the Legislative Assembly on May 14, 1991.

The Public Accounts Committee convened a meeting on June 26, 1991, at which time organizational and procedural matters were discussed. No further meetings of the Committee were held. Accordingly, there was no discussion by the Committee of the information contained in the Auditor General's 1991 Annual Report.

# APPENDICES

# APPENDICES

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# APPENDIX A

## AUDITOR GENERAL ACT

### INTERPRETATION

1. In this Act

"ministry" means a ministry or branch of the executive government of the Province;

"public body" means

(a) an agency of the Crown;

(b) a board, commission, council or other body of persons, whether or not incorporated, all the members of which or all the members of the board of management or board of directors of which are appointed by an Act, an order of the Lieutenant Governor in Council or a minister of the Crown;

(c) a corporation, more than 50% of the shares or ownership of which is, directly or indirectly, vested in the Crown; or

(d) a corporation, association, board, commission or society to which a grant or advance of public money is made, or the borrowings of which may be guaranteed by the Crown under the authority of any Act;

and all other words have the same meaning as they have in the *Financial Administration Act*.

### APPOINTMENT, SALARY, TERM AND PENSION

2. (1) The Lieutenant Governor shall, on the recommendation of the Legislative Assembly, appoint as an officer of the Legislature, a person as Auditor General to exercise the powers and perform the duties assigned to him under this Act.

(2) The Legislative Assembly shall not recommend a person to be appointed as Auditor General unless a special committee of the Legislative Assembly has unanimously recommended to the Legislative Assembly that the person be appointed.

(3) The Auditor General shall be appointed for a term of 6 years and he may be reappointed in the manner provided in this section for further 6 year terms.

(4) The Auditor General shall be paid, out of the consolidated revenue fund, a salary in an amount equal to the salary paid to the chief judge of the Provincial Court of British Columbia.

(5) The Auditor General shall be reimbursed for reasonable travelling and out of pocket expenses necessarily incurred by him in discharging his duties.

(6) Subject to subsections (7) to (10.1), the *Pension (Public Service) Act* applies to the Auditor General.

(7) An Auditor General who retires, is retired or removed from office after at least 10 years' service shall be granted an annual pension payable on or after attaining age 60.

(8) Where an Auditor General who has served at least 5 years is removed from office by reason of a physical or mental disability, section 19 of the *Pension (Public Service) Act* applies and he is entitled to a superannuation allowance commencing on the first day of the month following his removal.

(9) Where an Auditor General who has served at least 5 years dies in office, section 20 of the *Pension (Public Service) Act* applies and the surviving spouse of the Auditor General is entitled to a superannuation allowance commencing on the first day of the month following the death.

(10) When calculating the amount of a superannuation allowance under subsection (7), (8) or (9),

(a) each year of service as Auditor General shall be counted as 1 1/2 years of pensionable service.

(b) [Repealed 1988-52-1.]

(10.1) Subsection (10) does not apply to the calculation under section 6(5) of the *Pension (Public Service) Act*.

(11) Before beginning to perform his duties, the Auditor General shall take an oath before the Clerk of the Legislative Assembly that he will faithfully and impartially exercise the powers and perform the duties of his office.

**RESIGNATION, REMOVAL OR SUSPENSION**

3. (1) The Auditor General may at any time resign his office by written notice to the Speaker of the Legislative Assembly or to the Clerk of the Legislative Assembly if there is no Speaker or if the Speaker is absent from the Province.

(2) On the recommendation of the Legislative Assembly, based on cause or incapacity, the Lieutenant Governor shall

(a) suspend the Auditor General, with or without salary; or

(b) remove the Auditor General from his office

in accordance with the recommendation.

(3) Where the Auditor General is suspended or removed from office or the office of Auditor General becomes vacant, the Lieutenant Governor shall, on the recommendation of the Legislative Assembly, appoint an acting Auditor General to hold office until the end of the period of suspension of the Auditor General or until an Auditor General is appointed under this Act, as the case may be.

(4) When the Legislature is not sitting and is not scheduled to sit within the next 5 days, the Lieutenant Governor in Council may, with or without salary, suspend the Auditor General from his office for cause or incapacity but the suspension shall not continue in force after the expiry of 20 sitting days.

**ACTING AUDITOR GENERAL**

4. (1) Where

(a)the Auditor General is suspended or removed or the office of Auditor General becomes vacant when the Legislature is sitting but no recommendation under this Act is made by the Legislative Assembly before the end of that session; or

(b) the Auditor General is suspended or the office of Auditor General becomes vacant when the Legislature is not sitting,

the Lieutenant Governor in Council may appoint an acting Auditor General.

(2) The appointment of an acting Auditor General under this section terminates

(a) on the appointment of a new Auditor General under section 2;

(b) at the end of the period of suspension of the Auditor General; or

(c)mmediately after the expiry of 20 sitting days after the day on which he was appointed

whichever the case may be and whichever occurs first.

**STAFF**

5. (1) The Auditor General may appoint, in accordance with the Public Service Act, a deputy Auditor General and other employees necessary to enable him to perform his duties.

(2) For the purpose of the application of the *Public Service Act* to this section, the Auditor General shall be deemed to be a deputy minister.

(3) Notwithstanding the *Public Service Act*, the Auditor General may engage and retain specialists and consultants as may be required to carry out his functions, and may determine their remuneration.

(4) [Repealed 1985-15-19, effective March 2, 1987 (B.C. Reg. 248/86).]

(5) The Auditor General may make a special report to the Legislative Assembly where

(a) the amounts and establishment provided for the office of the Auditor General in the estimates; or

(b) the services provided to him by the Government Personnel Services Division, are, in his opinion, inadequate to enable him to fulfil his duties.

**EXAMINATION OF ACCOUNTS**

6. (1) The Auditor General shall examine in the manner he considers necessary the accounts and records of the government relating to the consolidated revenue fund and all public money, including trust and special funds under the management of the government, and to public property.

(2) Notwithstanding any other Act, the Auditor General

(a) shall be given access to the records of account and administration of any ministry; and

(b) may require and receive from any person in the public service, information, reports and explanations necessary for the performance of his duties.

**REPORT ON FINANCIAL STATEMENTS**

7. (1) The Auditor General shall report annually to the Legislative Assembly on the financial statements of the government, including those required by section 8(2) of the *Financial Administration Act*, respecting the fiscal year then ended.

(2) The report shall form part of the public accounts and shall state

(a) whether he has received all of the information and explanations he has required; and

(b) whether in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the government in accordance with the stated accounting policies and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the report of the Auditor General does not contain the unqualified opinion required under this section, the Auditor General shall state the reasons why.

**ANNUAL REPORT**

8. (1) The Auditor General shall report annually to the Legislative Assembly on the work of his office and call attention to anything resulting from his examination that he considers should be brought to the attention of the Legislative Assembly including any case where he has observed that

(a) accounts have not been faithfully and properly kept or public money has not been fully accounted for;

(b) essential records have not been maintained;

(c) the rules, procedures or systems of internal control applied have been insufficient

(i) to safeguard and protect the assets of the Crown;

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue;

(iii) to ensure that expenditures have been made only as authorized; or

(iv) to ensure the accuracy and reliability of the accounting data; or

(d) public money has been expended for purposes other than for which it was appropriated by the Legislature.

(2) In the report the Auditor General may also include an assessment

(a) as to whether the financial statements of the government are prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure; or

(b) as to whether any program being administered by a ministry is being administered economically and efficiently.

**TRIVIAL MATTERS**

**9.** The Auditor General need not report to the Legislative Assembly on any matter he considers immaterial or insignificant.

**SUBMISSION OF ANNUAL REPORT**

**10.** (1) A report of the Auditor General to the Legislative Assembly shall be submitted by him through the Minister of Finance.

(2) On receipt of a report of the Auditor General, the Minister of Finance shall lay the report before the Legislative Assembly as soon as possible.

(3) If the Minister of Finance does not lay the report before the Legislative Assembly on the first sitting day following the receipt of the report by him, the Auditor General shall transmit the report to the Speaker and the Speaker shall lay the report before the Legislative Assembly.

(4) On being laid before the Legislative Assembly, the annual report of the Auditor General shall be referred to the Public Accounts Committee of the Legislative Assembly.

**SPECIAL REPORT**

**11.** The Auditor General may at any time make a special report to the Legislative Assembly on a matter of primary importance or urgency that, in his opinion, should not be deferred until he makes his annual report.

**OTHER REPORTS**

**12.** The Auditor General may at any time make a report to the Minister of Finance, the Treasury Board, the Lieutenant Governor in Council, or any public officer on any matter that in the opinion of the Auditor General should be brought to his or their attention.

**SPECIAL ASSIGNMENTS**

**13.** The Auditor General may undertake special assignments at the request of the Lieutenant Governor in Council, but he is under no obligation to carry out any requested assignment if, in his opinion, it would interfere with his primary responsibilities.

**STAFF IN MINISTRIES**

**14.** (1) The Auditor General may station in any ministry a person employed in his office to enable him to more effectively carry out his duties, and the ministry shall provide the

necessary office accommodation for a person so stationed.

(2) The Auditor General shall require every person employed in his office who is to examine the accounts or the administration of a ministry pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that ministry.

**INQUIRY POWERS**

**15.** The Auditor General may examine any person on oath on any matter pertaining to his responsibilities and for that examination the Auditor General has all the powers, protection and privileges of a commissioner under sections 12, 15 and 16 of the *Inquiry Act*.

**PUBLIC BODIES**

**16.** (1) Notwithstanding any other Act, where the Auditor General is not the auditor of a public body,

(a) the public body shall, on the request of the Auditor General, supply the Auditor General with a copy of all financial statements and reports relating to the public body;

(b) the auditor of the public body shall, on the request of the Auditor General, make available to the Auditor General, within a reasonable time, all working papers, reports and other documents in his possession relating to the public body; and

(c) the Auditor General may conduct examinations of the records and operations of the public body he considers necessary or advisable to carry out his duties under this Act.

(2) Notwithstanding any other Act, the Auditor General

(a) shall be given access to the records of account and administration of any public body; and

(b) may require and receive from any officer or employee of a public body information reports and information necessary for the performance of his duties.

**ELIGIBILITY AS AUDITOR**

**17.** Notwithstanding any other Act, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a Crown corporation, Crown agency or public body.

**TRANSFER OF AUDIT DUTIES**

**18.** The Lieutenant Governor in Council may transfer to the Auditor General the duty imposed by any Act on a person to conduct an audit.

**AUDIT OF ACCOUNTS OF AUDITOR GENERAL**

**19.** (1) The Treasury Board shall appoint an auditor to audit the accounts of the office of Auditor General annually.

(2) The auditor appointed under this section shall certify the accounts of the office of Auditor General that he finds to be correct and shall report the result of his audit to the Speaker, who shall present it to the Legislative Assembly.

**APPROPRIATION**

**20.** Money required for the purposes of this Act shall be paid out of money authorized by an Act of the Legislature.

# APPENDIX B

## MISSION STATEMENT

The formal mandate of the Auditor General has been prescribed by the Legislative Assembly in the *Auditor General Act*, a copy of which is presented in Appendix A to this report.

Based on the requirements of that Act, and reflecting the concepts and practices that have evolved over time, a Mission Statement has been developed to concisely describe the role of the Auditor General, and the means employed to carry out this role.

### MISSION STATEMENT

**The Auditor General serves the citizens of the Province by providing independent opinions and evaluations on the financial and administrative management of the government and its related entities in the public sector. As well, he promotes improvement in public sector accountability.**

**To fulfill his responsibilities, the Auditor General has established a professional office committed to the principles of objectivity, integrity and service to the public.**

While this statement is purposely brief, amplification of its various aspects will help the reader better understand its message.

The phrase, *"serves the citizens of the Province,"* denotes the concept of public service and recognizes the breadth of the audience interested in the Auditor General's work, including Members of the Legislative Assembly, the government and its administration, the taxpayer, and others seeking information about the financial and administrative affairs of the government.

The statement continues, *"by providing independent."* This reflects the fact that the Auditor General is an officer of the legislature. His independence from the government of the day and the public service is essential to the effective and unbiased work of the Office.

The phrase, *"opinions and evaluations on the financial and administrative management of the government,"* describes the major responsibility of the Office of the Auditor General. The *Auditor General Act* requires the Auditor General to examine the accounts and records of the government, and to express his opinion on the government's annual financial statements. In this respect the Auditor General's role is like that of accounting firms who audit the books of private sector companies. Following the collection and spending of public funds, the Auditor General examines the government's financial transactions and reports his findings to the Legislative Assembly. Like private sector auditors, he expresses his opinion on the financial information presented to him by the government—the traditional "attest" audit function.

The Act also calls on the Auditor General to comment in an annual report to the Legislative Assembly on any matter arising from his work that he considers to be of interest to the Assembly. This may deal with such matters as the improper use of public funds, failure to comply with legislative and related authorities, expenditures not authorized by the legislature, and other irregularities. It may also deal with his evaluations as to whether tax dollars have been economically and efficiently spent for the purposes intended.

The Statement continues, *"and its related entities in the public sector."* This refers to the Auditor General's role with respect to provincial Crown corporations and other public bodies. For those public bodies of which he is the appointed auditor, the Auditor General's responsibilities roughly parallel those undertaken in the audit of the government's accounts. For those public bodies audited by others, the Auditor General has an overseeing role which responds to the various needs of the Legislative Assembly.

The next sentence states, *"As well, he promotes improvement in public sector accountability."* It refers to the Auditor General's overall concern with disclosure and accountability throughout the public sector. In this regard, whether through his Annual Report, his dealings with the Public Accounts Committee of the Legislative Assembly, or his direct contact with public officials and administrators, the Auditor General actively furthers the concept of accountability.

The final phrase of the Mission Statement reads, *"a professional office committed to the principles of objectivity, integrity and service to the public."* The concept of professionalism emphasized here implies adherence to a set of standards that are professionally recognized. Since its inception, the Office of the Auditor General has operated as a practicing accounting office as defined by the Institute of Chartered Accountants of British Columbia, and has met all the requirements of that Institute associated with this status. Staff members of the Office are required to have either a professional accounting designation or special qualifications in other disciplines, or to be pursuing studies toward a professional designation.

# APPENDIX C

## OFFICE OF THE AUDITOR GENERAL: AUDIT OBJECTIVES AND METHODOLOGY

Audit work performed by the Office of the Auditor General falls into three broad categories:

- Financial statement auditing
- Value-for-money auditing
- Compliance, control, and accountability auditing

Each of these categories has certain objectives that are expected to be achieved, and each employs a particular methodology to reach those objectives. The following is a brief outline of the objectives and methodology of each audit category.

## FINANCIAL STATEMENT AUDITING

### PURPOSES OF FINANCIAL STATEMENT AUDITS

An independent audit of financial statements has several purposes. The main one is to add credibility to the statements, thus enhancing their value to the ultimate users. Evidence of this is provided in the form of an Auditor's Report which accompanies the financial statements, and in which the auditor expresses his opinion as to whether the statements are presented fairly in accordance with an appropriate, disclosed basis of accounting.

Another benefit of such an annual audit is that its very existence provides a constant stimulus to an organization to ensure sound financial management. In addition, the auditor is frequently able to provide helpful assistance and advice to an organization as a direct result of findings developed during the audit.

### REPORTING THE RESULTS OF AUDITS

As noted above, a financial statement audit results in the issuance of a report on those statements. These reports are addressed to whomever appointed or engaged the auditor to do the work, such as the organization's owner, the shareholders, or some appropriate representative of those with a stake in the organization. In the case of the government financial statements examined by this Office, the Auditor General addresses his reports to the Legislative Assembly. The reports issued on the statements of Crown corporations and other government organizations are addressed to various parties, according to applicable appointment or engagement arrangements.

The Auditor's Report constitutes the auditor's professional opinion on the financial statements, and usually consists of three basic paragraphs.

The first paragraph identifies the financial statements that have been audited. It also points out that the statements are the responsibility of management, and that the auditor's

responsibility is to express an opinion on the statements.

Next is the "scope" paragraph, which describes the nature and extent of the auditor's work, and the degree of assurance that the auditor's report provides. Also, it refers to generally accepted auditing standards and describes some of the important procedures which the auditor undertakes.

The third paragraph, frequently referred to as the "opinion" paragraph, contains the auditor's conclusion based on the audit conducted.

If the auditor is unable to provide an opinion without reservation on the financial statements, he must then incorporate another paragraph in the report. In that paragraph, which would appear between the scope and the opinion paragraphs, the auditor advises the reader as to the reasons for the reservation, and the effects or possible effects on the financial statements of the matter giving rise to the reservation.

Finally, should the auditor wish to present additional information or explanations concerning the financial statements—information that does not constitute a reservation of his audit opinion—he may add a further, explanatory paragraph to his report.

## Auditing Standards

When undertaking examination procedures for the purpose of expressing an opinion on financial statements, auditors are expected to comply with established professional standards, referred to as generally accepted auditing standards. The principal source of these standards in Canada is the Canadian Institute of Chartered Accountants (CICA).

Generally accepted auditing standards consist of three main areas. There are general requirements that the auditor be properly qualified to conduct and report on an audit, and that he carry out his duties with an objective state of mind. Further standards outline the key technical elements to be observed in the conduct of an audit. Finally, reporting standards set out the essential framework of the auditor's report on the financial statements.

In addition to these broad standards, the CICA makes other, more detailed, recommendations related to matters of auditing practice. As well, the CICA, through its Public Sector Accounting and Auditing Committee, makes recommendations which relate specifically to the audit of entities in the public sector.

## Application of the Standards

We carry out extensive examinations of the accounts and records maintained by the ministries and central agencies of government, and by the Crown corporations and other public bodies of which the Auditor General is the auditor.

Also, with respect to Crown corporations which are audited by other auditors and which form part of the government's Summary Financial Statements, we obtain various information and assurances from those other auditors which enable us to rely on their work in conducting our audit of the government's accounts. This information is supplemented by periodic reviews by our staff of those auditors' working paper files and audit procedures.

Throughout these examinations, the Office of the Auditor General complies with all prescribed auditing standards in the conduct of its work. It must be

realized, however that the Auditor General's opinion on a set of financial statements does not guarantee the absolute accuracy of those statements. In the audit of any large organization it is neither feasible nor economically desirable to examine every transaction. Instead, a sampling of transactions is carried out by the auditor in a manner designed to provide reasonable assurance that any errors contained in the financial statements are not, in total, significant enough to mislead the reader as to the organization's financial position or results of operations.

When determining the nature and extent of work required to provide such assurance, we consider two main factors: *materiality*, which is expressed in dollar terms, and *overall audit assurance*, expressed in percentage terms.

- *Materiality* relates to the aggregate dollar amount which, if in error, would affect the substance of the information reported in the financial statements, to the extent that the reader's judgment, based on the information contained in the statements, would be affected.
- *Overall audit assurance* represents, in percentage terms, how certain the auditor wants to be that his audit will discover errors in the financial statements which, in total, exceed materiality.

In planning our audits of financial statements, we exercise professional judgment in determining the application of these two key factors.

## VALUE-FOR-MONEY AUDITING

### PURPOSE OF VALUE-FOR-MONEY AUDITS

Value-for-money audits look at how organizations have given attention to value for money—to economy, efficiency and effectiveness.

The concept of value-for-money auditing is based on two principles. The first is that public business should be conducted in a way that makes the best possible use of public funds. The second is that people who conduct public business should be held accountable for the prudent and effective management of the resources entrusted to them.

### THE NATURE OF VALUE-FOR-MONEY AUDITS

A value-for-money audit has been defined as:

> *. . . the independent, objective assessment of the fairness of management's representations on performance, or the assessment of management systems and practices, against criteria, reported to a governing body or others with similar responsibilities.*

This definition recognizes that there are two primary forms of reporting used in value-for-money auditing. The first—referred to as attestation reporting—is the provision of audit opinions on reports that contain representations by management on matters of economy, efficiency and effectiveness.

The second—referred to as direct reporting—is the provision of more than just auditor's opinions. In the absence of representations by management on matters of economy, efficiency and effectiveness, auditors, to fulfil their mandates, gather essential information with respect to management's regard for value for money and include it in their own reports along with their opinions. In effect, the audit report becomes a partial substitute for information that might otherwise be provided by management on how they have

discharged their essential value-for-money responsibilities.

The attestation reporting approach to value-for-money auditing has not been used yet in British Columbia because the organizations we audit have not been providing comprehensive management representations on their value-for-money performance. Until recently, the management representations approach to value for money was not practicable. The need to account for the prudent use of taxpayers' money had not been recognized as significant issue and, consequently, there was neither legislation nor established tradition that required public sector managers to report on a systematic basis as to whether they had spent taxpayers' money wisely. In addition, there was no generally accepted way of reporting on the value-for-money aspects of performance.

Recently, however, considerable effort has been devoted to developing acceptable frameworks to underlie management reports on value-for-money performance, and public sector organizations have begun reporting on value-for-money performance through management representations. We believe that management representations and attestation reporting are the preferred way of meeting accountability responsibilities and are actively encouraging the use of this model in the British Columbia public sector.

Because all of our value-for-money audits are conducted now using the direct reporting model, the description that follows explains that model.

Our value-for-money audits are not designed to question government policies. Nor do they assess program effectiveness. The *Auditor General Act* directs the Auditor General to assess whether the programs implemented to achieve government policies are being administered economically and efficiently. Our value-for-money audits also evaluate whether members of the Legislative Assembly and the public are provided with appropriate accountability information about government programs.

When undertaking value-for-money audits, auditors can look either at results, to determine whether value-for-money is actually achieved, or at managements' processes, to determine whether those processes should ensure that value is received for money spent.

Neither approach alone can answer all the legitimate questions of legislators and the public, particularly if problems are found during the audit. If the auditor assesses results and finds value for money has not been achieved, the natural questions are "Why did this happen?" and "How can we prevent it from happening in future?" These are questions that can only be answered by looking at the process. On the other hand, if the auditor looks at the process and finds weaknesses, the question that arises is "Do these weaknesses result in less than best value being achieved?" This can only be answered by looking at results.

We try, therefore, to combine both approaches wherever we can. However, as acceptable results information and criteria are often not available, our value-for-money audit work frequently concentrates on managements' processes for achieving value for money.

We seek to provide fair, independent assessments of the quality of government administration. We conduct our audits in a way that enables us to provide positive assessments where they are warranted. Where we cannot

provide such assessments, we report the reasons for our reservations. Throughout our audits, we look for opportunities to improve government administration.

### Audit Selection

We select for audit either programs or functions administered by a specific ministry or public body, or cross-government programs or functions that apply to many government entities. There are a large number of such programs and functions throughout government. We examine the larger and more significant ones on a cyclical basis.

We believe that value-for-money audits conducted using the direct reporting approach should be undertaken on a five- to six-year cycle so that members of the Legislative Assembly and the public receive assessments of all significant government operations over a reasonable time period. Because of limited resources, we have not been able to achieve this schedule.

### Our Audit Process

We carry out these audits in accordance with the value-for-money auditing standards established by the Canadian Institute of Chartered Accountants.

One of these standards requires that the "person or persons carrying out the examination possess the knowledge and competence necessary to fulfill the requirements of the particular audit." In order to meet this standard, we employ professionals with training and experience in a variety of fields, including economics, law, accounting, education, engineering, architecture, management, and auditing. These professionals are engaged full-time in the conduct of value-for-money audits. In addition, we often supplement the knowledge and competence of the audit team formed to carry out a particular audit by engaging a consultant who has expertise in the subject of that audit.

As value-for-money audits, like all audits, involve a comparison of actual performance against a standard of performance, the CICA prescribes standards as to the setting of appropriate performance standards or audit criteria. In establishing the criteria, we do not demand theoretical perfection from public sector managers. Rather, we seek to reflect what we believe to be the reasonable expectations of legislators and the public. The CICA standards also cover the nature and extent of evidence that should be obtained to support the content of the auditor's report.

### Audit Reporting

The CICA's auditing standards address the reporting of audit results as well. We usually make two reports: one to the Legislative Assembly in the form of our Annual Report; and another, more detailed, report to management of the entity audited.

## Compliance, Control, and Accountability Auditing

In addition to those already described, a third broad category of audits is performed by the Office. We refer to it as compliance, control, and accountability auditing. As its title indicates, this category consists of three segments. The segments have a number of common, as well as a some unique, features.

## Purposes of the Audits

The *Auditor General Act* calls on the Auditor General to comment in his annual report to the Legislative Assembly on any matter arising from his work that he considers to be of interest to the Assembly. This may deal with such matters as the improper use of public funds, failure to comply with legislative and related authorities, expenditures not authorized by the legislature, inadequate systems of internal control, and deficient accountability reporting.

While our audits of financial statements and our value-for-money audits may give rise to reporting on such matters, we also undertake audits specifically designed to examine these aspects of government administration.

## Compliance-with-Authorities Auditing

In this context, "authorities" refers to legislation, regulations, orders-in-council, directives, by-laws, policies, guidelines, rules and other instruments through which powers are established and delegated.

Governments and other organizations in the public sector carry out their operations under the authority provided by incorporating or enabling legislation. Legislation may set out the directions, conditions and limitations with which these organizations must comply, and may also specify the administration and transactions of these organizations. For example, government spending, revenue-raising, borrowing and investing activities are carried out under legislative authority. As well, legislation designates administrative responsibilities and powers, and provides direction in regard to the performance of administrative functions. It may govern the appointment of boards and commissions, or prescribe procedures to be followed in the acquisition of goods and services.

Legislation may delegate broad financial and administrative powers to governments, ministers and officials, and they in turn may establish authorities that must be complied with by the organizations concerned. Such authorities are subordinate to the enabling legislation and must comply with the directions, conditions and limitations set out in that legislation.

This structure of authorities constitutes a basis for legislative control over the source, allocation and use of public resources. It thus has a pervasive effect on the activities of governments and other publicly accountable organizations.

Our auditing work to assess compliance with authorities is usually carried out in conjunction with our financial statement attest audits, our value-for-money audits, our internal control reviews and our special studies. However, audits intended to specifically assess the extent of compliance with certain legislative and related authorities are now being conducted by the Office, on a cyclical basis.

Because readers of an audit report on compliance are entitled to an adequate level of assurance, we apply the same professional standards to our examination as those established by the CICA with respect to opinions on financial statements.

In an examination designed to report on compliance with authorities, we seek reasonable assurance that the authorities specified in the audit report have been complied with in all significant respects. Absolute assurance in auditing is not attainable because of such factors as the need for judgment,

the use of testing, and the inherent limitations of internal controls.

In our reporting on compliance, the words "in all significant respects" are used as there may be minor instances of non-compliance that either may not be detected by the audit, or may not be worthy of inclusion in the report.

We must exercise professional judgment when assessing the significance of non-compliance. For example, the needs of the users of the report, the nature of the relevant authorities and the extent of the non-compliance should be considered. As well, the significance of non-compliance cannot always be measured in monetary terms.

Auditors of an organization require knowledge of, and familiarity with, the authorities that apply to the organization being audited and the to transactions for which it is responsible. Because the wording of these authorities may be subject to differing interpretations, auditors may wish to obtain professional advice with respect to legal issues arising in the course of such audits.

## Internal Control Reviews

Internal controls are the methods used by an organization to regulate and guide its activities. They include the plan of organization followed, the records maintained, and the procedures employed to ensure that business is conducted properly and efficiently. Reliable internal control systems in government are essential to see that:

- expenditures are made only as authorized;
- all revenue to which the government is entitled is assessed and collected;
- financial transactions are accurately recorded and reported;
- assets of the Crown are safeguarded; and
- relevant legislative and other authorities are complied with.

The ultimate responsibility for good internal controls rests with the government. These controls should be recognized as an integral part of each system used to regulate and guide operations. Good internal controls are not only essential to achieving the proper conduct of government business with full accountability for the resources made available, but they also facilitate the achievement of objectives by serving as checks and balances against undesired actions. By preventing negative consequence from occurring, internal controls help the government to run its operations cost-effectively.

The extent of controls in any system should be determined by the risk of loss, error, or misuse that is judged to be present in the system. The greater the risk, the greater the degree of required control. However, the cost of control should not exceed the benefits likely to be derived. The balancing of these factors—judgement as to risk involved and the need for controls to be cost effective—means that in most situations it is not practical for internal controls to provide absolute assurance that all risks are addressed and that all objectives will be achieved.

For each review undertaken, we acquire a thorough knowledge of the system, including identification of the functions in the system which enable management to achieve its program objectives. The complexity of the control environment is assessed and specific legislative authorities noted. The major internal control risks are then identified, including those relating to any potential contravention of governing legislation, and an audit

program developed to see how well the system addresses the risks. Where major weaknesses are identified, further testing is performed. In determining the amount of testing to be undertaken for a weakness investigation, we take into account the financial impact of a material error occurring in the system being reviewed.

### Accountability Studies

As a final segment of this audit category, we undertake, from time to time, examinations which are best described as accountability studies.

In our Mission Statement (see Appendix B), we state that "(the Auditor General) promotes improvement in public sector accountability." Our commentary goes on to say that this sentence "refers to the Auditor General's overall concern with disclosure and accountability throughout the public sector. In this regard, whether through his Annual Report, his dealings with the Public Accounts Committee of the Legislative Assembly, or his direct contact with public officials and administrators, the Auditor General actively furthers the concept of accountability."

The concept of accountability pervades all aspects of government administration, and accordingly forms the basis for some of the commentary in our Annual Report. Nevertheless, we also endeavor to identify certain accountability issues which might be of interest to members of the Legislative Assembly and the general public, and which might not otherwise be subject to review in the normal course of events. As time and resources permit, these issues are studied, and our analysis of them published in our Annual Report.

# APPENDIX D

## PUBLIC BODIES AUDITED BY THE AUDITOR GENERAL

### INCLUDED IN THE SUMMARY FINANCIAL STATEMENTS

British Columbia Assessment Authority

British Columbia Educational Institutions Capital Financing Authority

British Columbia Enterprise Corporation

British Columbia Health Research Foundation

British Columbia Housing and Employment Development Financing Authority

British Columbia Liquor Distribution Branch

British Columbia Regional Hospital Districts Financing Authority

British Columbia School Districts Capital Financing Authority

Creston Valley Wildlife Management Authority Trust Fund

Duke Point Development Limited

Health Facilities Association of British Columbia

Medical Services Commission of British Columbia

Provincial Capital Commission

W.L.C. Developments Ltd.

### INCLUDED IN TRUST FUNDS

British Columbia Hydro and Power Authority Pension Fund

BC Rail Ltd. Pension Fund

British Columbia Public Service Long Term Disability Fund

College Pension Fund

Members of the Legislative Assembly Superannuation Account

Municipal Superannuation Fund

Province of British Columbia Pooled Investment Portfolio, Fund ST1

Province of British Columbia Pooled Investment Portfolio, Fund ST2

Province of British Columbia Pooled Investment Portfolio, Fund ST3

Province of British Columbia Pooled Investment Portfolio, Active Canadian Equity Fund

Province of British Columbia Pooled Investment Portfolio, Indexed Canadian Equity Fund

Public Service Superannuation Fund

Teachers' Pensions Fund

Workers' Compensation Board

### OTHER

British Columbia Institute of Technology

Legal Services Society

Simon Fraser University

University of British Columbia

University of Northern British Columbia

University of Victoria

Workers' Compensation Board Superannuation Fund

# APPENDIX E

## PUBLIC BODIES AUDITED BY PRIVATE SECTOR AUDITORS AND WHOSE FINANCIAL STATEMENTS ARE INCLUDED IN THE PUBLIC ACCOUNTS

### INCLUDED IN THE SUMMARY FINANCIAL STATEMENTS

British Columbia Buildings Corporation

British Columbia Ferry Corporation

British Columbia Hazardous Waste Management Corporation

B.C. Health Care Risk Management Society

British Columbia Heritage Trust

British Columbia Housing Management Commission

British Columbia Hydro and Power Authority

British Columbia Lottery Corporation

B.C. Pavilion Corporation

British Columbia Petroleum Corporation

British Columbia Railway Company

British Columbia Steamship Company (1975) Ltd.

B.C. Summer and Winter Games Society

British Columbia Systems Corporation

British Columbia Trade Development Corporation

British Columbia Transit

British Columbia Year of Music Society

Downtown Revitalization Program Society of British Columbia

Housing Corporation of British Columbia

Insurance Corporation of British Columbia

Okanagan Valley Tree Fruit Authority

Pacific National Exhibition

Provincial Rental Housing Corporation

Science Council of British Columbia

The Education Technology Centre of British Columbia

### INCLUDED IN TRUST FUNDS

Credit Union Deposit Insurance Corporation of British Columbia

# APPENDIX F

## VALUE-FOR-MONEY AUDITS COMPLETED TO DATE

### 1992 ANNUAL REPORT

Ministry of Social Services:

- Programs for Independence
- Residential Services
- Managing Professional Resources

Ministry of Forests:

- Human Resource Needs and Allocation

### 1991 ANNUAL REPORT

Ministry of Forests:

- Monitoring of Forest Roads
- Monitoring of Timber Harvesting
- Monitoring of Major Licensees' Silviculture Activities

Ministry of Transportation and Highways:

- Highway Planning
- Protecting Roads and Bridges
- Monitoring of Maintenance Contractors
- Minor Capital Construction and Rehabilitation Projects

### 1990 ANNUAL REPORT

Ministry of Transportation and Highways:

- Road and Bridge Maintenance
- Major Capital Projects
- Development Approvals
- Gravel Management
- Buying Signs
- Services, Facilities and Attractions Signs
- Annual Report

Privatization:

- Monitoring Environmental Laboratory Services
- British Columbia Enterprise Corporation Westwood Plateau Property

Acquisition and Disposition of Land

### 1989 ANNUAL REPORT

Privatization:

- The Process
- Early Initiatives
- Highways
- British Columbia Enterprise Corporation Loans

Ministry of Health:

- Hospitals
- Medical Services Plan
- Continuing Care
- Public Health

### 1988 ANNUAL REPORT

Ministry of Education:

- Funding

Special Education

Facilities

Curriculum

Ministry of Energy, Mines and Petroleum Resources:

Organization Structure

Natural Gas Royalty Revenue

Petroleum Resources Division

Mineral Resources Division, Engineering and Inspection Branch

### 1987 Annual Report

Government Purchasing

Ministry of Attorney General:

Corrections Branch

Legal Services Branch

Management of Buildings and Office Accommodation

Management of the Financial Function

### 1986 Annual Report

Ministry of Lands, Parks and Housing:

Crown Land Administration

Crown Land Special Account

Computerization

Social Housing

Parks and Outdoor Recreation

Financial Management and Control

Passenger Vehicle Travel

### 1985 Annual Report

Ministry of Agriculture and Food:

Strategic Direction and Accountability

Financial Assistance Extension

Financial Management and Control

Ministry Annual Reports

### 1982 Annual Report

Review of Internal Audit in the Government of British Columbia

### 1981 Annual Report

Ministry of Environment:

Waste Management Program

Financial Management and Control

Ministry of Forests:

Financial Management and Control

Ministry of Health:

Financial Management and Control

### 1980 Annual Report

Ministry of Human Resources:

Income Assistance Program

Financial Management and Control

Ministry of Education:

Financial Management and Control

Ministry of Finance:

Financial Management and Control

Ministry of Lands, Parks and Housing:

Financial Management and Control

# APPENDIX G

## COMPLIANCE, CONTROL, ACCOUNTABILITY, AND OTHER AUDITS COMPLETED TO DATE

### 1992 ANNUAL REPORT

British Columbia Year of Music

Crown Societies

Compliance with Part 4 of the Financial Administration Act and its Related Regulations

Ministry of Attorney General

- Family Maintenance Enforcement Program
- Office of the Public Trustee: Internal Control Review
- Liquor Distribution Branch: General Computer Controls

Ministry of Environment, Lands and Parks

- Purchase of Environmental Laboratory Services

Ministry of Finance and Corporate Relations

- Office of the Comptroller General: Government Payroll Office

### 1991 ANNUAL REPORT

Compliance with the Financial Information Act, Regulation, and Directive

Compliance with Part IV of the Financial Administration Act and its Related Regulations

Expenditure Review: Board of Internal Economy

External Settlement/Safekeeping Services for Long-Term Bond Portfolios: Ministry of Finance and Corporate Relations

Child Day Care Subsidy Program: Ministry of Social Services and Housing

The Industrial Incentive Fund: An Audit of the Loans Process

Performance and Security Bonding

### 1990 ANNUAL REPORT

Ministry Accounts Receivable Management

Pharmacare Processing of Payment Claims from Pharmacies: Ministry of Health

Wildlife Act—Licence Fee Revenue: Ministry of Environment

Long Term Disability Plan Benefit Payments: Superannuation Commission

Home Mortgage Accounting System: Ministry of Finance and Corporate Relations

Student Financial Assistance: Ministry of Advanced Education, Training and Technology

Accountability of Crown Corporations to the Legislative Assembly

The Lottery Fund: An Audit of the Granting Process

Public Gaming: Licensing and Control

Reporting the Results of Privatization Transactions

Fraud and Other Illegal Acts: Awareness, Reporting and Investigation

### 1989 Annual Report

Property Purchase Tax System: Ministry of Finance and Corporate Relations

Long-Term Debt Accounting System: Ministry of Finance and Corporate Relations

Central Textbook Inventory System: Ministry of Education

Data Collection Phase of the Stumpage and Royalty Revenue System: Ministry of Forests

Provincial Police Services Contract Payment System: Ministry of Solicitor General

Control of the Public Purse by the Legislative Assembly

Review of Recent Initiatives: Ministry of Transportation and Highways

Management of Government Employee Leave Entitlements

### 1988 Annual Report

Provincial Treasury Investment System: Ministry of Finance and Corporate Relations

Sewerage Assistance and Water Facilities Grants Payment System: Ministry of Municipal Affairs

Shelter Aid for Elderly Renters Grant Payment System: Ministry of Social Services and Housing

Small Business Enterprise Program Revenue System: Ministry of Forests and Lands

Vital Statistics Division Revenue System: Ministry of Health

### 1987 Annual Report

Review of Local Minor Purchase Orders and Emergency Purchase Orders

### 1986 Annual Report

Professional Service Contract Review

### 1982 Annual Report

Expenditure Review (Travel Expenses)

# APPENDIX H

## SPECIAL AND OTHER REPORTS ISSUED TO DATE

| | Date Report Issued |
|---|---|
| Report to the Legislative Assembly of British Columbia on the 1990-91 Public Accounts | January 24, 1992 |
| Report Under Section 12 of the Auditor General Act—Ministry of Attorney General: A Review of the Ministry's Relationship with Syscom Consulting Inc. | November 23, 1990 |
| Special Report to the Legislative Assembly—The Lottery Fund: An Audit of the Granting Process | February 27, 1990 |
| Report under Section 12 of the Auditor General Act—An Examination of the Severance Settlement with Mr. David Poole | July 7, 1989 |
| Special Report to the Legislative Assembly on the Allocation of Highway Construction Costs in the Fiscal Year Ended 31 March 1986 | March 7, 1988 |
| Third Special Report to the Legislative Assembly on the Expenditures of the Ministry of Tourism | April 11, 1984 |
| Second Special Report to the Legislative Assembly on the Expenditures of the Ministry of Tourism | July 18, 1983 |
| Special Report to the Legislative Assembly on the Expenditures of the Ministry of Tourism | May 1, 1983 |
| Special Report on Expenditures of the Minister of Consumer and Corporate Affairs from 6 January 1981 to 31 March 1982 | July 23, 1982 |

# APPENDIX I

## EXCERPTS FROM THE 1990–91 PUBLIC ACCOUNTS

The material which forms Appendix I is copied from the Public Accounts of British Columbia for the fiscal year ended March 31, 1991. It consists of:

- Introduction to the Public Accounts containing a statement of responsibility, and a statement of the government's significant accounting policies.
- The government's Summary Financial Statements.

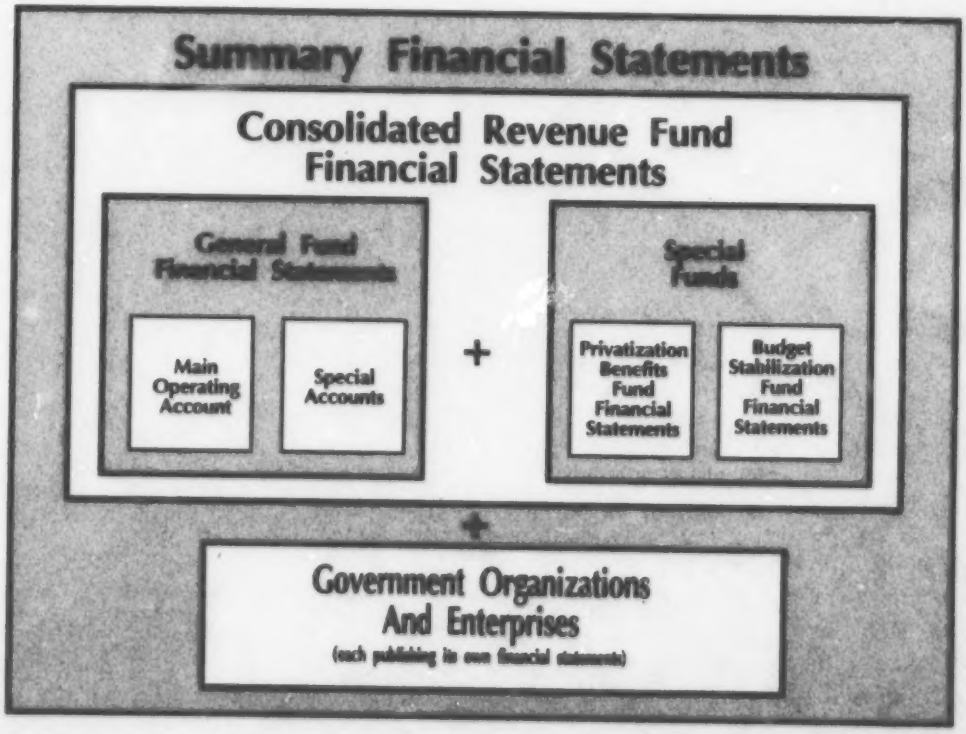
# Introduction

The Public Accounts are the documents that contain the audited financial statements of the government and other financial information presented to the Legislative Assembly to show compliance with the various statutory authorities. The government's financial statements are prepared in accordance with the accounting policies described in this Introduction and on a basis consistent with that of the preceding year, except where a change or variation is explicitly described in the Significant Accounting Policies section below.

## Government Financial Statements

The government carries on its activities through a variety of appropriations, special funds, corporations and agencies. Financial statements are, therefore, prepared to incorporate various levels of activity under its authority. Five sets of financial statements are produced. They are: General Fund; Privatization Benefits Fund; Budget Stabilization Fund; Consolidated Revenue Fund; and, Summary Financial Statements.

Individual statements are first prepared for the General Fund (main operating account and special accounts), the Privatization Benefits Fund and Budget Stabilization Fund. These represent the funds over which the government has direct control. The operations of these three funds, which together comprise the Consolidated Revenue Fund, are then combined to produce the Consolidated Revenue Fund Statements. When those statements are consolidated with amounts from other government organizations and enterprises, the result is the Summary Financial Statements. This is graphically illustrated as follows:




Each set of financial statements includes the following:

- *Balance Sheet* — a statement of financial position, showing recorded assets and liabilities, with the residual difference being net equity. In addition to the recorded assets, the province owns a significant number of other assets: physical assets, including highways, bridges, ferries and Crown land, which includes parks, forests and all other publicly held land in the province.

- *Statement of Revenue and Expenditure*—a statement summarizing the items of revenue and expenditure for the fiscal year. The net revenue or expenditure for a year represents the change in net equity for the same period.
- *Statement of Changes in Cash and Temporary Investments*—a statement showing how the operating transactions (being those expenditures and other transactions which affect operating results) and financing transactions (being those transactions such as loans which affect the financial position but not the operating results) have affected the cash and temporary investments position of the government. (This statement is omitted from Special Funds as unnecessary due to limited transactions.)
- *Notes and Supplementary Statements to Financial Statements*—these provide additional information on the amounts included in the financial statements and they form an integral part of the financial statements.

## Statement of Responsibility for Government Financial Statements

Responsibility for the integrity and objectivity of the government's financial statements rests with the government. The financial statements are prepared by the Comptroller General under the direction of the Treasury Board, pursuant to section 8 (2) of the *Financial Administration Act*, in accordance with the government's stated accounting policies and principles. Each financial statement covers the fiscal year of the government, which is from April 1 to March 31 of the following year.

## Significant Accounting Policies

The government's financial statements are prepared in accordance with the accounting policies described below and on a basis consistent with that of the preceding year, except where a change or variation is explicitly described in the 1991 Changes in Accounting Policy section.

BASIS OF ACCOUNTING

The accrual basis of accounting is used, which is specifically expressed as follows:

*Revenue*

All revenues are recorded on an accrual basis except where the accruals cannot be determined with a reasonable degree of certainty or where their estimation is impracticable. The exceptions, which normally relate to certain payments to the province under the *Federal–Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977*, are recorded on a cash basis. Revenues from government enterprises are recognized when cash transfers are received or when dividends are declared.

*Expenditure*

All expenditures, including the cost of fixed assets, are recorded for goods and services received during the year. Grants (which include forgivable loans) are recorded as expenditure when disbursement of the funds has been authorized. Contributions are recorded as expenditure at the earlier of:

(i) the date payment has been authorized; or,
(ii) the date on which performance conditions are achieved by the recipient under provisions of a statute, contract or agreement.

Recoveries of expenditure may be recorded as a credit to the appropriate expenditure account when:

(i) they can be specifically identified with the expenditure transactions and payment has actually been made from an appropriation;
(ii) provision for them has been approved through the Estimates; and
(iii) the expenditure to which they relate was incurred in the same fiscal year.

*Assets*

All assets are recorded to the extent that they represent cash and claims upon outside parties or items held for resale to outside parties as a result of events and transactions prior to the year–end. Rental payments for leases which transfer the benefits and risks incident to the ownership of certain assets, not including special purpose buildings, are reported as expenditures at the dates of inception of the leases.

*Liabilities*

All liabilities are recorded to the extent that they represent claims payable to outside parties as a result of events and transactions prior to the year–end, including probable losses on loan guarantees issued by the government.

*Foreign Currency Translation*

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year–end, and foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts which specify the rate of exchange. Adjustments to revenue or expenditure transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long–term, fixed–term monetary assets and liabilities are reported as deferred charges and amortized over the remaining terms of the related items on a straight line basis.

Non–monetary assets and liabilities are translated at historical rates of exchange.

*Valuation Allowances*

Valuation allowances, such as provisions for doubtful accounts and provisions for reduction in value of investments, are included as expenditures on the statement of revenue and expenditure. Personal and corporate income tax are recorded net of tax credits and adjustments which are based upon revised assessments of actual tax revenue of previous taxation years. Tax credits and adjustments are not considered valuation allowances.

SPECIFIC POLICIES

*Cash and Temporary Investments*

Cash balances are shown after deducting outstanding cheques issued prior to the year-end. Cheques issued subsequent to the year–end relating to the previous year are included in accounts payable.

Temporary investments include short–term investments recorded at the lower of cost or market value. Temporary investments consist mainly of units in the Province of British Columbia Pooled Investment Portfolios. Units are carried at the lower of cost of acquisition adjusted by income attributed to the units, or market value. Income attributed to the units represents the unitholders' share of interest earned by the portfolio and is realizable by unitholders upon the sale of units.

*Accounts Receivable*

All amounts receivable (including any trade receivables from government organizations and enterprises) at the year-end for work performed, goods supplied or services rendered are recorded as revenue or recoveries of the fiscal year. Valuation allowances are provided where collectibility is considered doubtful.

*Inventories*

Inventories comprise items held for resale and are recorded at the lower of cost or net realizable value. Inventories of supplies are charged to the respective programs when the cost is incurred.

Property under development, which will eventually be sold to outside parties, is recorded at the lower of cost or net realizable value.

*Amounts Due From Other Governments*

Amounts due from other governments include loans and advances outstanding at the year-end.

*Investments In and Amounts Due From Crown Corporations and Agencies*

Investments in and amounts due represent long–term investments and amounts due, other than trade receivables, and are recorded at cost unless significant prolonged impairment in value has occurred, in which case they are written down to recognize this loss in value. If, in periods subsequent to recognizing this impairment, the value of the investment is restored, the investment is written up to the lesser of restored value or original cost.

*Loans, Advances and Other Investments*

Loans, advances and other investments are recorded at cost less adjustment for any prolonged impairment in value.

*Mortgages Receivable*

Mortgages receivable are secured by real estate and are repayable over periods ranging up to thirty years. Valuation allowances are made where collectibility is considered doubtful.

*Fiscal Agency Loan Program*

Fiscal Agency Loan Program consists of loans made to government bodies, and cash and temporary investments set aside for the specific purpose of loaning to government bodies. Loans are recorded at maturity value less unamortized discounts and sinking fund balances. Discounts are amortized on an effective yield basis.

*Other Assets*

Other assets include prepaid program costs. Prepaid program costs represent expenditures made during the fiscal year for work to be performed, goods to be supplied, services to be rendered or contractual obligations to be fulfilled by outside parties in a subsequent fiscal year. These costs also include inventories of operating materials held in the Purchasing Commission and Queen's Printer warehouses pending distributions in a subsequent fiscal year.

Also included in other assets are certain deferred charges.

*Physical Assets*

Disbursements for physical assets are recorded as expenditures in the year the assets are received. Consistent with the reporting of physical assets as expenditures, highways, bridges, wharves, ferries and ferry landings, buildings, office equipment, furniture, automobiles and Crown land comprised of parks, forests and all other publicly held land by the province, not including property under development, are recorded at a nominal value of $1.

*Accounts Payable and Accrued Liabilities*

All amounts payable (including any trade payables to government organizations and enterprises) for work performed, goods supplied, services known to have been rendered or for charges incurred in accordance with the terms of a contract are recorded as part of the expenditures of the fiscal year.

*Amounts Due to Other Governments*

Amounts due to other governments represent liabilities incurred due to advances and loans from other governments.

*Due to Crown Corporations, Agencies and Funds*

Amounts due to Crown corporations, agencies and funds represent liabilities incurred, other than trade payables, which are payable in the following year.

*Deferred Revenue*

Deferred revenue represents amounts received or receivable prior to the year–end relating to revenue that will be earned in subsequent fiscal years.

*Public Debt*

Public debt represents direct debt obligations for the purposes of the Government of British Columbia and the Fiscal Agency Loan Program. These obligations are recorded at principal less unamortized discounts and sinking fund balances where applicable. Discounts are amortized on an effective yield basis.

*Guaranteed Debt*

Guaranteed debt represents that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of provincial Crown corporations, which has been explicitly guaranteed or indemnified by the government, under the authority of a statute, as to net principal or redemption provisions. Valuation allowances are made where probable losses can be reasonably estimated.

A valuation allowance provision is established representing the probable losses on loan guarantees issued by the government. The amount of the provision is determined by the loss experience of the guarantee program and is sufficient to meet the expected payout of the guarantee to the lender. The provision is recorded as an expense in the year the guarantee is issued and is adjusted as necessary to ensure it equals the expected payout of the guarantee.

*Commitments*

Commitments represent future obligations of the government for capital contracts and extraordinary program commitments, to the extent of contracts and agreements in place at the year–end.

1991 CHANGES IN ACCOUNTING POLICY

- *Valuation Allowances*—beginning in 1990/91, valuation allowances are included in operating expenditures. In 1989/90, valuation allowances were reported as non–operating transactions on the statement of revenue and expenditure. As a result of retroactive application of this change, total 1989/90 operating expenditure has been increased by $22 million; however, there is no change to the net revenue for that year.

## Public Accounts Content

The Public Accounts are divided into two volumes as follows:

### Consolidated Reporting Entity, Trust Funds and Summaries of Financial Information Reports

- *Summary Financial Statements* — these statements have been prepared to disclose the economic impact of the government's activities. They aggregate the Consolidated Revenue Fund and government organizations and enterprises.
- *Consolidated Revenue Fund Financial Statements* — these statements include the accounts of the Consolidated Revenue Fund, combining the activities of the General Fund with funds earmarked for specific purposes, Special Funds.
- *Financial Statements of Government Organizations and Enterprises*— this section contains the latest audited financial statements of government organizations and enterprises. A summary of financial information for other entities subject to the *Financial Information Act* is incorporated in the last section of this volume.
- *Trust Funds Financial Statements* — this section contains the latest audited financial statements of the pension, superannuation and long–term disability funds administered by the government. A summary of financial information for trust funds is included in this section.
- *Summaries of Financial Statements of Corporations and Agencies to which the Financial Information Act applies* — this section contains summaries of the financial statements of corporations, associations, boards, commissions, societies and public bodies required to report under the *Financial Information Act* (S.B.C. 1985, chapter 8, section 2) and not included elsewhere in this volume.

### Financial Statements and Schedules of the Funds Comprising the Consolidated Revenue Fund

- *General Fund Financial Statements—these statements contain the operating activities of the general fund of the government, including special accounts.*
- *Privatization Benefits Fund Financial Statements*—these statements contain the activities of the special fund created by the government to hold in perpetuity the proceeds of assets disposed of through the privatization program.
- *Budget Stabilization Fund Financial Statements*—these statements contain the activities of the special fund created by the government to assist in stabilizing the operating revenues of the government.
- *Supplementary Schedules to the Financial Statements*—this section contains schedules which support the information presented in the province's General Fund financial statements, including details of expenditures by ministerial appropriations, together with an analysis of statutory appropriations and Special Accounts and Funds transactions.
- *Detailed Schedules of Payments*—this section contains detailed schedules of salaries, wages, travel expenses, grants and other payments.

# Summary Financial Statements as at March 31, 1991

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| Statement of Changes in Cash and Temporary Investments | 7 |
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## Supplementary Statements


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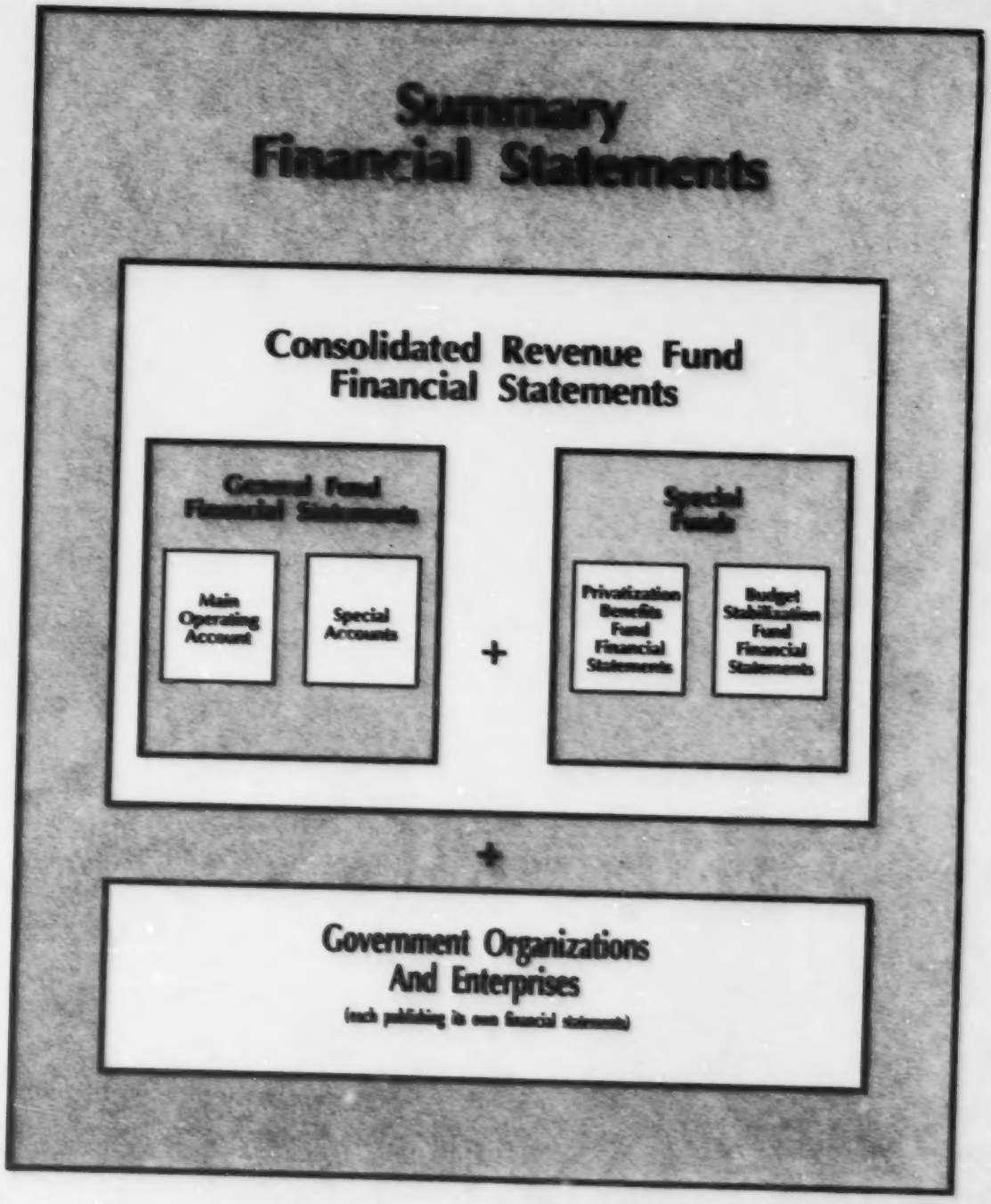
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Funds
Privatization
Benefits
Fund
Financial
Statements
Budget
Stabilization
Fund
Financial
Statements
+
Government Organizations
And Enterprises
(each publishing its own financial statements)

Legislative Assembly
Province of British Columbia

AUDITOR GENERAL

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# AUDITOR GENERAL'S REPORT

*To the Legislative Assembly*
*of the Province of British Columbia*
*Parliament Buildings*
*Victoria, British Columbia*

I have audited the balance sheet of the Government of the Province of British Columbia as at March 31, 1991 and the statements of revenue and expenditure and changes in cash and temporary investments for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. In the conduct of my audit, I have received all the information and explanations I have required.

These financial statements do not include the Government's liability for the unfunded portion of pension benefits earned by employees. The Government only records as pension expenditure the amount of funding it provides in accordance with the Pension (Public Service) Act. If the Government had been recording the full cost of pension benefits accruing to its employees in each fiscal year, in the manner recommended in 1988 by the Canadian Institute of Chartered Accountants, the Government's liabilities and net deficiency would have been increased by approximately $441 million as at March 31, 1990, the date of the latest actuarial valuation pursuant to the Pension (Public Service) Act. Since no other actuarial valuations have been carried out using the recommended accrued benefit method, the effects on the consolidated net revenue (expenditure) for the years ended March 31, 1990 and 1991, and on the liabilities and net deficiency at March 31, 1991, are not reasonably determinable.

...2

**AUDITOR GENERAL'S REPORT**
**Summary Financial Statements**
**Page 2**

I report in accordance with section 7 of the Auditor General Act. In my opinion, except for the effects of not recording the Government's liability for the unfunded portion of pension benefits earned by employees as referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Government as at March 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with the stated accounting policies as set out in note 1 to these financial statements applied, after giving retroactive effect to the changes explained in the 1991 Changes in Accounting Policy section of the Introduction to the 1990/91 Public Accounts, on a basis consistent with that of the preceding year.

George L. Morfitt, F.C.A.
*Auditor General*

*Victoria, British Columbia*
*August 15, 1991*

# Summary Financial Statements Balance Sheet as at March 31, 1991

| | Note | In Millions 1991 | 1990 |
|---|---|---|---|
| **Assets** | | $ | $ |
| Cash and temporary investments | 2 | 219 | 442 |
| Accounts receivable | 3 | 1,276 | 1,066 |
| Inventories | 4 | 47 | 55 |
| Amounts due from other governments | 5 | 64 | 70 |
| Equity in government enterprises | 6 | 2,377 | 2,280 |
| Loans, advances and other investments | 7 | 887 | 800 |
| Mortgages receivable | 8 | 147 | 138 |
| Fiscal Agency Loan Program | 9 | 7,396 | 6,287 |
| Other assets | 10 | 28 | 11 |
| | | **12,441** | **11,149** |
| **Liabilities and Net Equity (Deficiency)** | | | |
| Liabilities: | | | |
| Accounts payable and accrued liabilities | 11 | 1,311 | 1,225 |
| Amounts due to other governments | 12 | 197 | 140 |
| Due to Crown corporations, agencies and trust funds | 13 | 53 | 54 |
| Deferred revenue | 14 | 269 | 273 |
| Public debt, used for government operating purposes | 15 | 5,318 | 4,803 |
| Public debt, used for Fiscal Agency Loan Program | 16 | 7,399 | 6,257 |
| | | 14,547 | 12,752 |
| Net equity (deficiency) | 17 | (2,106) | (1,603) |
| | | **12,441** | **11,149** |
| Physical assets | 18 | | |
| Contingencies and commitments | 19 | | |

The accompanying notes and supplementary statements are an integral part of these financial statements.

Approved on behalf of the Ministry of Finance and Corporate Relations:

DOUGLAS H. HORSWILL
*Deputy Minister of Finance and Corporate Relations*

ALAN J. BARNARD
*Deputy Comptroller General*
*Acting for the Comptroller General*

# Summary Financial Statements
# Statement of Revenue and Expenditure
# for the Fiscal Year Ended March 31, 1991

| | In Millions 1991 | 1990 |
|---|---|---|
| **Revenue** | $ | $ |
| Taxation | 8,956 | 7,969 |
| Natural resources | 1,171 | 1,249 |
| Fees and licences | 1,315 | 1,288 |
| Investment earnings | 140 | 168 |
| Miscellaneous | 792 | 783 |
| Contributions from government enterprises | 601 | 530 |
| Contributions from the federal government | 1,961 | 2,101 |
| Recoveries | 870 | 690 |
| Total revenue | **15,806** | **14,778** |
| **Expenditure** | | |
| Health | 5,047 | 4,502 |
| Social services | 1,630 | 1,465 |
| Education | 4,108 | 3,237 |
| Protection of persons and property | 631 | 549 |
| Transportation | 1,169 | 1,179 |
| Natural resources and economic development | 1,001 | 946 |
| Other | 494 | 533 |
| General government | 683 | 645 |
| Debt servicing | 1,660 | 1,415 |
| Total operating expenditure (Note 20) | **16,423** | **14,471** |
| **Net Operating Revenue (Expenditure) for the Year** | **(617)** | **307** |
| **Non–Operating Transactions** | | |
| Increase in unremitted equity of government enterprises (Note 6) | 114 | 97 |
| **Consolidated Net Revenue (Expenditure) for the Year (Note 21)** | **(503)** | **404** |

The accompanying notes and supplementary statements are an integral part of these financial statements.

# Summary Financial Statements
# Statement of Changes in Cash and Temporary Investments for the Fiscal Year Ended March 31, 1991

| | In Millions | | | |
|---|---|---|---|---|
| | 1991 | | | 1990 |
| | Receipts $ | Disbursements $ | Net $ | Net $ |
| **Operating Transactions** | | | | |
| Net operating revenue (expenditure) for the year | | | (617) | 307 |
| Non-cash items included in net expenditure: | | | | |
| Accounts receivable (increases) | | | (213) | (94) |
| Due from other governments decreases | | | 6 | |
| Accounts payable increases | | | 86 | 90 |
| Due to other governments increases | | | 57 | |
| Public debt issue/discount increase | | | 70 | 25 |
| Equity in government enterprises (increases) | | | (97) | (182) |
| Due to Crown corporations (decreases) | | | (1) | (6) |
| Provision for doubtful accounts | | | 42 | 22 |
| Unremitted equity of government enterprises increases | | | 114 | 97 |
| Cash items applicable to future operations | | | (23) | 55 |
| Cash derived from (used for) operations | | | (576) | 314 |
| **Investment Transactions** | | | | |
| Loans, advances and other investments (issues) | 218 | 314 | (96) | (210) |
| Mortgages receivable repayments (issues) | 39 | 68 | (29) | 282 |
| Cash derived from (used for) investments | 257 | 382 | (125) | 72 |
| Total financial increases (decreases) | | | (701) | 386 |
| **Financing Transactions**[1] | | | | |
| Increase in public debt | 16,531 | 14,949 | 1,582 | 201 |
| Used for Fiscal Agency Loan Program | (9,182) | (8,078) | (1,104) | (869) |
| Cash derived from (used for) financing | 7,349 | 6,871 | 478 | (668) |
| (Decrease) in cash and temporary investments | | | (223) | (282) |
| Balance—beginning of year | | | 442 | 724 |
| Balance—end of year | | | **219** | **442** |

[1] Financing transaction receipts are from debt issues and disbursements are for debt repayments.

The accompanying notes and supplementary statements are an integral part of these financial statements.

# Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991

## 1. Significant Accounting Policies

(a) Reporting Entity

These financial statements include the accounts of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, and are owned or controlled by the government.

A detailed schedule of organizations included in these consolidated financial statements may be found on B 20.

Advanced education institutions are excluded from consolidation. These organizations are dissimilar to other government organizations in terms of their objectives, operations and financial reporting practices. Trusts administered by a government or government organization are excluded from the government reporting entity.

(b) Principles of Consolidation

The accounts of the organizations, except those designated as government enterprises, are consolidated after adjusting them to a basis consistent with the accounting policies described below. Inter-organization accounts and transactions are eliminated upon consolidation.

A government enterprise has the financial and operating authority to carry on a business, including contracting in its own name, and sells goods and services to individuals and non-government organizations as its principal activity and source of revenue.

Government enterprises are recorded on the modified equity basis. Under this basis, the government's investment is initially recorded at cost and adjusted annually to include the net earnings/losses and other net equity changes of the enterprise without adjusting them to conform with the accounting policies described below. Since the government ensures the ongoing activities of government enterprises, full account is taken of losses in these enterprises, even where the cumulative losses exceed the original investment.

Inter-enterprise accounts and transactions are not eliminated. However, profit elements included in such transactions, including certain increases in contributed surplus, are eliminated.

Adjustments are not made to account for changes in organizations whose fiscal year-ends are not March 31, unless the effect of adjustment would be significant to the consolidated operating results.

(c) Basis of Accounting and Specific Policies

The basis of accounting, specific policies and 1991 changes in accounting policy are as stated in the Introduction section of the Public Accounts, with the following amendments:

- Equity in government enterprises represents the government's investment (including long-term advances) in those government organizations at cost, adjusted for increases and decreases in the investees' net assets.
- The policies "Investments in and amounts due from Crown corporations and agencies" and "Revenues from government enterprises" are not applicable.
- Public debt includes debt obligations of the consolidated Crown corporations, and commitments include future obligations of all the government organizations and enterprises.
- For these financial statements the gross basis of accounting is followed. In particular, recoveries are reported as revenue.

## 2. Cash and Temporary Investments

| | In Millions | |
|---|---|---|
| | 1991 | 1990 |
| | $ | $ |
| Cash (cheques issued in excess of funds on deposit) | (10) | (107) |
| Temporary investments | | |
| Units in Province of British Columbia Pooled Investment Portfolios | 229 | 549 |
| | 219 | 442 |

# Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

## 3. Accounts Receivable

| | In Millions | |
|---|---|---|
| | 1991 | 1990 |
| | $ | $ |
| Taxes receivable | 813 | 544 |
| Trade accounts receivable | 351 | 301 |
| Accrued interest | 178 | 187 |
| Crown corporations and agencies | 15 | 112 |
| | 1,357 | 1,144 |
| Less provision for doubtful accounts | (81) | (78) |
| | 1,276 | 1,066 |

## 4. Inventories

| | In Millions | |
|---|---|---|
| | 1991 | 1990 |
| | $ | $ |
| Property under development | 46 | 53 |
| Ministerial inventories | 1 | 2 |
| | 47 | 55 |

## 5. Amounts Due From Other Governments

| | In Millions | |
|---|---|---|
| | 1991 | 1990 |
| | $ | $ |
| Government of Canada: | | |
| Current | 62 | 66 |
| Local Governments:[1] | | |
| Current | 2 | 4 |
| | 64 | 70 |

[1] Local governments are municipal units established by the provincial government. They include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

# Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

## 6. Equity in Government Enterprises[1]

In Millions

| | 1991 | | | 1990 |
|---|---|---|---|---|
| | Investments $ | Unremitted Earnings $ | Total $ | Total $ |
| British Columbia Assessment Authority | | 4 | 4 | 5 |
| British Columbia Ferry Corporation | | 226 | 226 | 193 |
| British Columbia Housing and Employment Development Financing Authority | | 1 | 1 | |
| British Columbia Housing Management Commission | | 7 | 7 | 5 |
| British Columbia Hydro and Power Authority | 122 | 747 | 869 | 790 |
| British Columbia Liquor Distribution Branch | | | | 17 |
| British Columbia Lottery Corporation | 15 | | 15 | 14 |
| B.C. Pavilion Corporation | 154 | (2) | 152 | 158 |
| British Columbia Petroleum Corporation | | 1 | 1 | 27 |
| British Columbia Railway Company | 268 | 585 | 853 | 820 |
| British Columbia Steamship Company (1975) Ltd. | | 3 | 3 | 4 |
| British Columbia Transit | | 112 | 112 | 110 |
| Duke Point Development Limited | | 4 | 4 | 4 |
| Housing Corporation of British Columbia | | | | 5 |
| Insurance Corporation of British Columbia | | 56 | 56 | 55 |
| Pacific National Exhibition | | 30 | 30 | 30 |
| Provincial Capital Commission | | 4 | 4 | 3 |
| Provincial Rental Housing Corporation | 21 | 2 | 23 | 23 |
| W.L.C. Developments Ltd. | | 17 | 17 | 17 |
| | 580 | 1,797 | 2,377 | 2,280 |

[1] See B 21 for details.

## Change in Equity in Government Enterprises

In Millions

| | 1991 | | | 1990 |
|---|---|---|---|---|
| | Investments $ | Unremitted Earnings $ | Total $ | Total $ |
| Balance—beginning of year | 597 | 1,683 | 2,280 | 2,098 |
| Increase (decrease) for the year | (17) | 114 | 97 | 182 |
| Balance—end of year | 580 | 1,797 | 2,377 | 2,280 |

# Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

## 7. Loans, Advances and Other Investments

| | In Millions | |
|---|---|---|
| | 1991 | 1990 |
| | $ | $ |
| *Agricultural Land Development Act* | 14 | 14 |
| *Crop Insurance Stabilization Act* | 15 | 15 |
| *Development Corporation Act* | 116 | 120 |
| *Downtown Revitalization Act* | 11 | 13 |
| *Homeowner Assistance Act* | 4 | 5 |
| *Industrial Development Fund Act* | 21 | 22 |
| *Industrial Development Incentive Act* | 139 | 114 |
| *Low Interest Loan Agreement Revolving Fund Act* | 4 | 5 |
| *Ministry of Lands, Parks and Housing Act* | 2 | 5 |
| *Privatization Benefits Fund Act* | 474 | 422 |
| Province of Saskatchewan | 100 | 100 |
| *Vancouver Island Gas Pipeline Act* | 21 | |
| Other | 52 | 42 |
| | 973 | 877 |
| Less provision for doubtful accounts | (86) | (77) |
| | 887 | 800 |

## 8. Mortgages Receivable

| | In Millions | |
|---|---|---|
| | 1991 | 1990 |
| | $ | $ |
| Crown Land—pursuant to the *Ministry of Lands, Parks and Housing Act* | 18 | 20 |
| False Creek land sale | | |
| Note receivable | 100 | 91 |
| Public participation funding agreement | 20 | 20 |
| Provincial Regional Housing Corporation | 1 | |
| Provincial Home Acquisition—pursuant to the *Provincial Home Acquisition Act, Home Purchase Assistance Act,* and the *Home Conversion and Leasehold Loan Act* | 43 | 22 |
| Other | 3 | 3 |
| | 185 | 156 |
| Less provision for doubtful accounts | (38) | (18) |
| | 147 | 138 |

# Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

## 9. Fiscal Agency Loan Program

| | In Millions 1991 | 1990 |
|---|---|---|
| | $ | $ |
| Cash and temporary investments held for relending | | 54 |
| Loans made to government bodies: | | |
| British Columbia Assessment Authority | 6 | 4 |
| British Columbia Hydro and Power Authority | 3,736 | 2,981 |
| British Columbia Railway Company | 78 | 49 |
| British Columbia Transit | 979 | 920 |
| Capital Project Certificate of Approval Program | 171 | 189 |
| Greater Vancouver Sewerage and Drainage District | 26 | 27 |
| Greater Vancouver Water District | 62 | 20 |
| Improvement Districts | 2 | 2 |
| Post Secondary Educational Institutions | 482 | 426 |
| Regional Hospital Districts | 852 | 743 |
| School Districts | 954 | 821 |
| Simon Fraser University | 2 | 3 |
| Thompson-Nicola District | 1 | 1 |
| University of British Columbia | 41 | 43 |
| University of Victoria | 4 | 4 |
| | 7,396 | 6,287 |

## 10. Other Assets

| | In Millions 1991 | 1990 |
|---|---|---|
| | $ | $ |
| Prepaid program costs | 3 | 1 |
| Unamortized issue costs of public debt | 25 | 10 |
| | 28 | 11 |

## 11. Accounts Payable and Accrued Liabilities

| | In Millions 1991 | 1990 |
|---|---|---|
| | $ | $ |
| Trade accounts payable and other liabilities | 913 | 829 |
| Accrued interest on public debt | 294 | 319 |
| Accrued employee leave entitlements | 87 | 72 |
| *Forest Act*, section 88 | 1 | 1 |
| Provision for guaranteed debt payout | 16 | 4 |
| | 1,311 | 1,225 |

# Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

## 12. Amounts Due to Other Governments

| | In Millions | |
|---|---|---|
| | 1991 | 1990 |
| | $ | $ |
| Government of Canada: | | |
| Current | 151 | 88 |
| Local Governments:[1] | | |
| Current | 46 | 45 |
| Long term | | 7 |
| | 46 | 52 |
| | 197 | 140 |

[1] Local governments are municipal units established by the provincial government. They include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

## 13. Due to Crown Corporations, Agencies and Trust Funds

| | In Millions | |
|---|---|---|
| | 1991 | 1990 |
| | $ | $ |
| Trust Funds | 16 | 22 |
| British Columbia Colleges and Institutes | 14 | 13 |
| British Columbia Liquor Disribution Branch | 2 | |
| British Columbia Transit | 10 | 9 |
| Simon Fraser University | 3 | 3 |
| University of British Columbia | 7 | 6 |
| University of Victoria | 1 | 1 |
| | 53 | 54 |

## 14. Deferred Revenue

| | In Millions | |
|---|---|---|
| | 1991 | 1990 |
| | $ | $ |
| Motor vehicle licences and permits | 83 | 76 |
| Water rentals and recording fees | 61 | 55 |
| Petroleum, natural gas and minerals, leases and fees | 22 | 22 |
| Medical Services Plan premiums | 39 | 40 |
| Miscellaneous | 64 | 80 |
| | 269 | 273 |

# Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

## 15. Public Debt, Used for Government Operating Purposes

| | | In Millions | | | | | |
|---|---|---|---|---|---|---|---|
| | | 1991 | | | | 1990 | |
| | Year of Maturity | Canadian Dollar Debt $ | U.S. Dollar Debt (CDN $) $ | Total Canadian Dollars $ | Weighted Average Coupon Rate Percent | Total Canadian Dollars $ | Weighted Average Coupon Rate Percent |
| Short-term promissory notes | 1990-1991 | 106 | | 106 | | | |
| | 1991-1992 | 587 | 294 | 881 | | 311 | |
| | 1992-1993 | 11 | | 11 | | | |
| Treasury bills | 1990-1991 | | | | | 780 | |
| | 1991-1992 | 780 | | 780 | | | |
| Notes and bonds | 1990-1991 | | | | | 688 | 9.76 |
| | 1991-1992 | 714 | 1 | 715 | 10.24 | 758 | 10.18 |
| | 1992-1993 | 346 | | 346 | 8.33 | 357 | 8.22 |
| | 1993-1994 | 457 | 1 | 458 | 9.90 | 357 | 9.24 |
| | 1994-1995 | 74 | 12 | 86 | 9.95 | 88 | 7.14 |
| | 1995-1996 | 622 | | 622 | 10.78 | 322 | 10.58 |
| | 1996-2001 | 2,047 | 4 | 2,051 | 10.15 | 1,417 | 9.19 |
| | 2001-2006 | 363 | | 363 | 11.96 | 316 | 12.34 |
| | 2006-2011 | 137 | | 137 | 10.55 | 13 | 8.51 |
| | | 4,760 | 18 | 4,778 | 10.24 | 4,316 | 9.67 |
| Total debt issued at face value | | 6,244 | 312 | 6,556 | | [illegible] | |
| *Less:* | | | | | | | |
| Sinking funds | | | | (1,054) | | (443) | |
| | | | | 5,502 | | 4,964 | |
| Unamortized discount | | | | (184) | | (161) | |
| | | | | 5,318 | | 4,803 | |

Promissory notes outstanding at March 31, 1991 mature at various dates to February 26, 1993 at an annual average interest rate of 11.56%. During the year, $3.6 billion in notes were issued at interest rates which varied between 9.62% and 13.53%.

Treasury bills outstanding at March 31, 1991 mature at various dates to September 25, 1991 at an annual average interest rate of 10.77%. During the year, $2.5 billion in Treasury bills were issued at interest rates which varied between 9.53% and 13.84%.

The province had 166 series of notes and bonds outstanding at March 31, 1991.

Included in notes and bonds payable in Canadian currency are Japanese Yen notes totalling 27.8 billion Yen (1990: 29.4 billion Yen) which have been fully hedged to $203 million Canadian (1990: $211.9 million Canadian) through currency exchange agreements.

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

| | In Millions | |
|---|---|---|
| | Canadian Funds | U.S. Funds |
| | $ | $ |
| 1992 | 731 | 1 |
| 1993 | 379 | 1 |
| 1994 | 293 | 1 |
| 1995 | 177 | 8 |
| 1996 | 573 | |

# Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

## 16. Public Debt, Used for Fiscal Agency Loan Program

| | | In Millions | | | | | |
|---|---|---|---|---|---|---|---|
| | | 1991 | | | | 1990 | |
| | Year of Maturity | Canadian Dollar Debt $ | U.S. Dollar Debt (CDN $) $ | Total Canadian Dollars $ | Weighted Average Coupon Rate Percent | Total Canadian Dollars $ | Weighted Average Coupon Rate Percent |
| Promissory notes | 1990-1991 | | | | | 2,613 | |
| | 1991-1992 | 1,419 | 1,254 | 2,673 | | 123 | |
| Notes, bonds and debentures | 1990-1991 | | | | | 39 | 11.53 |
| | 1991-1992 | 125 | 11 | 136 | 10.18 | 136 | 10.18 |
| | 1992-1993 | 42 | | 42 | 12.42 | 42 | 13.09 |
| | 1993-1994 | 720 | | 720 | 11.74 | 581 | 11.65 |
| | 1994-1995 | 283 | | 283 | 9.25 | 326 | 9.54 |
| | 1995-1996 | 164 | | 164 | 9.21 | 172 | 9.14 |
| | 1996-2001 | 1,341 | | 1,341 | 10.38 | 1,198 | 10.20 |
| | 2001-2006 | 1,450 | | 1,450 | 13.50 | 1,450 | 13.49 |
| | 2006-2011 | 1,633 | | 1,633 | 10.25 | 1,194 | 10.07 |
| | 2016-2021 | 300 | | 300 | 10.60 | | |
| | | 6,058 | 11 | 6,069 | 11.19 | 5,138 | 11.24 |
| Total debt issued at face value | | 7,477 | 1,265 | 8,742 | | 7,874 | |
| *Less:* | | | | | | | |
| Sinking funds | | | | (1,253) | | (1,515) | |
| | | | | 7,489 | | 6,359 | |
| Unamortized discount | | | | (90) | | (102) | |
| | | | | 7,399 | | 6,257 | |

Promissory notes outstanding at March 31, 1991 mature at various dates to March 30, 1992 at an annual average interest rate of 10.72%. During the year, $8.5 billion in notes were issued at interest rates which varied between 2.97% and 14%.

The province had 357 issues of notes, bonds and debentures outstanding at March 31, 1991.

Included in notes, bonds and debentures payable in Canadian currency are Japanese Yen notes totalling 9.8 billion Yen (1990: 11.6 billion Yen) which have been fully hedged to $63.1 million Canadian (1990: $73 million Canadian) through foreign currency exchange agreements.

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

| | In Millions | |
|---|---|---|
| | Canadian Funds | U.S. Funds |
| | $ | $ |
| 1992 | 200 | 6 |
| 1993 | 118 | |
| 1994 | 956 | |
| 1995 | 303 | |
| 1996 | 126 | |

# Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

## 17. Net Equity (Deficiency)

| | In Millions 1991 | 1990 |
|---|---|---|
| | $ | $ |
| Net equity (deficiency)—beginning of year | (1,603) | (2,007) |
| Net revenue (expenditure) for the year | (503) | 404 |
| Net equity (deficiency)—end of year | (2,106) | (1,603) |

## 18. Physical Assets

Physical assets are recorded as expenditures in the year they are received. Expenditures for physical assets are classified in the books of the province as "Asset Acquisitions." During the 1990/91 fiscal year, the following types of physical asset acquisitions have been recorded:

| | In Millions 1991 | 1990 |
|---|---|---|
| | $ | $ |
| Data and word processing equipment | 96 | 103 |
| Office furniture and equipment | 15 | 20 |
| Lands, buildings and works | 465 | 438 |
| Machinery, equipment and works | 12 | 20 |
| | 588 | 581 |

## 19. Contingencies and Commitments

(a) Guaranteed Debt

Guaranteed debt as at March 31 1991 totalled $4.4 billion (1990: $4.9 billion).

| | In Millions 1991 Net Outstanding $ | 1990 Net Outstanding $ |
|---|---|---|
| Municipalities and other local governments | 6 | 8 |
| Health and education | 118 | 99 |
| Economic development | 885 | 616 |
| Utilities | 3,461 | 4,246 |
| Total | 4,470 | 4,969 |
| *Less:* | | |
| Amounts included as investments within the consolidated entity | (92) | (87) |
| Provision for probable payout | (16) | (4) |
| Total | 4,362 | 4,878 |

(b) Contingent Liabilities

(i) Pending litigation

The Government is a defendant in legal actions which may give rise to future liabilities. Because the outcome of the litigation is uncertain, no amount has been recorded in these financial statements.

- Consolidated Revenue Fund—the total claimed in specific legal actions, where the estimated or known claim is or exceeds $100,000, amounts to approximately $462 million. *See* Note 19 to the Consolidated Revenue Fund Financial Statements section of the Public Accounts for details.
- Consolidated Crown corporations—Medical Services Commission of British Columbia: In the 1988/89 fiscal year an action was commenced by physicians in the section of Emergency Medicine of the British Columbia Medical Association claiming damages, together with interest and costs, for payments allegedly withheld by the Commission. The amount of the damages is not stated in the Writ of Summons served on the Commission. It is the opinion of the Commission's management and its legal counsel that the physicians have no cause of action.

# Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

## 19. Contingencies and Commitments—Continued

(b) CONTINGENT LIABILITIES—Continued

(ii) Other contingent liabilities

Under the terms of the sale of the Expo 86 lands, the province is required to clean the site of all hazardous materials.

The Government also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Where indemnities are for explicit quantifiable loans, the amounts are included in guaranteed debt. No liability for all other contingent liabilities has been recorded in these financial statements because amounts are uncertain.

(c) COMMITMENTS

At the end of each year, government has a number of commitments outstanding for capital contracts and extraordinary programs. Such future expenditures are recorded as a charge in the year in which the work or service is performed. Year-end commitments for capital contracts and extraordinary costs totalled approximately $388 million (1990: $261 million).

(d) SUPERANNUATION AND PENSION ACTUARIAL VALUATIONS

(i) The government has statutory responsibilities, in the event of a deficiency existing between the money available for payment of superannuation allowances and the amounts necessary to meet the payment of these allowances, equal to:

- the amount of the deficiency in the case of the Public Service Superannuation Fund; and
- the amount specified by the Lieutenant Governor in Council in the case of the College Pension Fund.

(ii) The funds administered by the Superannuation Commission require that periodic actuarial valuations be performed for the purpose of assessing the adequacy of contribution rates and the financial position of the funds. The reporting of an unfunded liability by the actuary indicates that a deficiency of funds may arise in the future if the actions recommended by the actuary are not followed.

The unfunded liabilities as shown in the **latest actuarial valuations** for the above funds are provided for information purposes:

| | In Millions | |
|---|---|---|
| | Public Service Superannuation as at March 31, 1990 | College Pension as at August 31, 1988 |
| | $ | $ |
| Total actuarial liability | 5,447 | 372 |
| *Less* assets: | | |
| Fund | (3,107) | (196) |
| Present value of future contributions | (1,902) | (146) |
| Unfunded liability | 438 | 30 |

(iii) The Government also has statutory responsibility for any deficiency which arises between the money available in the Members of the Legislative Assembly Superannuation Account for the payment of superannuation allowances and the amounts necessary to meet the payment of such allowances. It is the practice of the government to fully fund such deficiences at the time a Member or his surviving spouse becomes eligible and elects to receive an allowance. An actuarial valuation of the account is not required by the *Legislative Assembly Allowances and Pension Act* and no such valuation has been performed.

*See* the Trust Funds Financial Statements section of the Public Accounts for further details of these funds.

# Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

## 20. Expenditure by Group Account Classification

| | In Millions | |
|---|---|---|
| | 1991 | 1990 |
| | $ | $ |
| Grants and contributions | 11,095 | 9,559 |
| Salaries and benefits | 1,388 | 1,222 |
| Operating costs | 1,532 | 1,383 |
| Asset acquisitions | 588 | 581 |
| Other | 1,820 | 1,726 |
| Total operating expenditure | 16,423 | 14,471 |

Valuation allowances of $45 million (1990: $22 million) are included in the "Other" group account classification.

## 21. Comparison of Planned and Actual Results

A comparison of budget and actual net revenue (expenditure) is as follows:

| | In Millions | | | |
|---|---|---|---|---|
| | 1991 | | 1990 | |
| | Budget $ | Actual[1] $ | Budget $ | Actual[1] $ |
| Organizations recorded on consolidated basis: | | | | |
| Consolidated Revenue Fund: | | | | |
| General Fund | | 85 | | 144 |
| Budget Stabilization Fund | (524) | (762) | (375) | 109 |
| Privatization Benefits Fund | 22 | 52 | 20 | 112 |
| | (502) | (625) | (355) | 365 |
| British Columbia Buildings Corporation | | 8 | | (55) |
| British Columbia Hazardous Waste Management Corporation | | 1 | | |
| B.C. Health Care Risk Management Society | | 5 | | |
| British Columbia Health Research Foundation | | (2) | | (1) |
| British Columbia Heritage Trust | | 1 | | 1 |
| British Columbia Systems Corporation | | 4 | | |
| British Columbia Trade Development Corporation | | (8) | | (7) |
| British Columbia Year of Music Society | | 1 | | (1) |
| Downtown Revitalization Program Society of British Columbia | | 6 | | 1 |
| Health Facilities Association of British Columbia | | (11) | | (1) |
| Okanagan Valley Tree Fruit Authority | | 1 | | |
| Science Council of British Columbia | | 2 | | 5 |
| | | (617) | | 307 |
| Organizations recorded on modified equity basis—government enterprises | | 114 | | 97 |
| Consolidated net revenue (expenditure) | | (503) | | 404 |

[1] The actual figures reflect the elimination of inter-organization transactions.

# Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

## 22. Expenses Due to Increases in Valuation Allowances

| | In Millions | |
|---|---|---|
| | 1991 | 1990 |
| | $ | $ |
| Accounts receivable | 20 | 3 |
| Investments in and amounts due from Crown corporations and agencies | 4 | 4 |
| Loans, advances and other investments | 14 | 15 |
| Mortgages receivable | 1 | |
| Other assets | 6 | |
| | 45 | 22 |

These amounts are included in expenditure and represent the write down of assets in the above categories.

## 23. Trust Funds

Amounts held and administered in trust by the government at the end of the fiscal year totalled $23,104 million (1990: $20,376 million). See Note 22 to the Consolidated Revenue Fund Financial Statements for further details.

## 24. Comparatives

Certain of the comparative figures for the previous year have been reclassified to conform with the current year's presentation.

Amounts due from, and to, other governments—beginning in 1990/91, amounts due from, and to, other governments are shown as separate classifications on the Balance Sheet. Comparative amounts for 1989/90 have been restated to reflect these new categories.

These reclassifications have had no effect on the operating results or fund balances as previously reported.

# Summary Financial Statements
# Statement of Organizations and Enterprises
# Recorded on a Consolidated or Modified Equity Basis
# for the Fiscal Year Ended March 31, 1991

## GOVERNMENT ORGANIZATIONS
## RECORDED ON CONSOLIDATED BASIS

Consolidated Revenue Fund:
- General Fund
- Budget Stabilization Fund
- Privatization Benefits Fund

B.C. Health Care Risk Management Society
B.C. Summer and Winter Games Society
British Columbia Buildings Corporation
British Columbia Educational Institutions Capital Financing Authority
British Columbia Hazardous Waste Management Corporation
British Columbia Health Research Foundation
British Columbia Heritage Trust
British Columbia Regional Hospital Districts Financing Authority
British Columbia School Districts Capital Financing Authority
British Columbia Systems Corporation
British Columbia Trade Development Corporation
British Columbia Year of Music Society
Downtown Revitalization Program Society of British Columbia
First Peoples' Heritage, Language and Culture Council
Health Facilities Association of British Columbia
Medical Services Commission of British Columbia
Okanagan Valley Tree Fruit Authority
Science Council of British Columbia
The Education Technology Centre of British Columbia

## GOVERNMENT ENTERPRISES
## RECORDED ON MODIFIED EQUITY BASIS

B.C. Pavilion Corporation
British Columbia Assessment Authority
British Columbia Enterprise Corporation
British Columbia Ferry Corporation
British Columbia Housing and Employment Development Financing Authority
British Columbia Housing Management Commission
British Columbia Hydro and Power Authority
British Columbia Liquor Distribution Branch
British Columbia Lottery Corporation
British Columbia Petroleum Corporation
British Columbia Railway Company
British Columbia Steamship Company (1975) Ltd.
British Columbia Transit
Creston Valley Wildlife Management Authority Trust Fund
Duke Point Development Limited
Housing Corporation of British Columbia
Insurance Corporation of British Columbia
Pacific National Exhibition
Provincial Capital Commission
Provincial Rental Housing Corporation
W.L.C. Developments Ltd.
178561 B.C. Ltd. (formerly Pacific Coach Lines Ltd.)

# Statement of Government Enterprises
## Summary of Financial Position and Operating Results
## for the Year Ended March 31, 1991

In Millions

| Financial Position | Utility | Insurance | Liquor | Trans-portation | Finance | Industry | Natural Resources | Housing | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **Assets** | | | | | | | | | |
| Cash and temporary investments | 132 | 2,585 | | 76 | 51 | 6 | 5 | 18 | 2,873 |
| Accounts receivable | 337 | 116 | 3 | 91 | 12 | 3 | 6 | 6 | 574 |
| Inventories | 57 | | 48 | 23 | | 27 | | | 155 |
| Loans and advances | | | | | | 1 | | | 1 |
| Long-term investments | | | | 38 | | 4 | | 1 | 43 |
| Fixed assets | 8,449 | 125 | 8 | 3,027 | 11 | 184 | | 165 | 11,969 |
| Other assets | 282 | 61 | 1 | 44 | 3 | | | 4 | 395 |
| **Total Assets** | 9,257 | 2,887 | 60 | 3,299 | 77 | 225 | 11 | 194 | 16,010 |
| **Liabilities** | | | | | | | | | |
| Accounts payable and accrued liabilities | 477 | 2,108 | 60 | 243 | 48 | 16 | 6 | 28 | 2,986 |
| Long-term debt: | | | | | | | | | |
| —owing to government | 4,067 | | | 1,027 | | 4 | | 4 | 5,102 |
| —owing to others | 3,057 | | | 593 | 6 | | | 71 | 3,727 |
| Other long-term liabilities | | | | 6 | | | | | 6 |
| Deferred liabilities | 780 | 723 | | 7 | 4 | 2 | | | 1,516 |
| **Total Liabilities** | 8,381 | 2,831 | 60 | 1,876 | 58 | 22 | 6 | 103 | 13,337 |
| **Net Assets (Liabilities)** | 876 | 56 | 0 | 1,423 | 19 | 203 | 5 | 91 | 2,673 |
| **Adjustments and eliminations** | | | | | | | | | |
| Unrealized inter-company profit | | | | | | | | | 0 |
| Unamortized asset appraisal increases | | | | (133) | | | | (83) | (216) |
| Unamortized gain on debt defeasance | (15) | | | (99) | | | | | (114) |
| Permanent debt/equity financing | 8 | | | 3 | | | | 23 | 34 |
| Equity in Government Enterprises 1990/91 | 869 | 56 | 0 | 1,194 | 19 | 203 | 5 | 31 | 2,377 |
| Equity in Government Enterprises 1989/90 | 790 | 55 | 17 | 1,127 | 19 | 209 | 29 | 34 | 2,280 |

## Statement of Government Enterprises
## Summary of Financial Position and Operating Results
## for the Year Ended March 31, 1991—Continued

In Millions

| Results of Operations | Utility | Insurance | Liquor | Trans-portation | Finance | Industry | Natural Resources | Housing | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Revenue | | | | | | | | | |
| From operations | 1,909 | 1,729 | 1,334 | 794 | 641 | 58 | 38 | 73 | 6,576 |
| Transfer from government | | | | 271 | 6 | 7 | 1 | 30 | 315 |
| Total revenue | 1,909 | 1,729 | 1,334 | 1,065 | 647 | 65 | 39 | 103 | 6,891 |
| Expenses | | | | | | | | | |
| From operations | 1,380 | 1,728 | 889 | 999 | 436 | 66 | 35 | 101 | 5,634 |
| Transfers to government | 353 | | | | | | 28 | | 381 |
| Total expenses | 1,733 | 1,728 | 889 | 999 | 436 | 66 | 63 | 101 | 6,015 |
| **Net Income (Loss) for the Year 1990/91** | 176 | 1 | 445 | 66 | 211 | (1) | (24) | 2 | 876 |
| **Net Income (Loss) for the Year 1989/90** | 120 | 45 | 420 | 19 | 202 | 88 | (6) | 1 | 889 |

# Statement of Equity in Government Enterprises for the Fiscal Year Ended March 31, 1991

In Millions

| | Utility[1] | Insurance[2] | Liquor[3] | Trans-portation[4] | Finance[5] | Industry[6] | Natural Resources[7] | Housing[8] | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance—beginning of year | $ 790 | $ 55 | $ 17 | $ 1,127 | $ 19 | $ 209 | $ 30 | $ 33 | $ 2,280 |
| Net earnings (losses) for the year | 176 | 1 | 445 | 66 | 211 | (1) | (24) | 2 | 876 |
| Capital transfers to government | (101) | | (462) | | (211) | | | | (774) |
| Adjustments and eliminations | 4 | | | 1 | | (5) | (1) | (4) | (5) |
| Increase (decrease) in equity of Government Enterprises | 79 | 1 | (17) | 67 | 0 | (6) | (25) | (2) | 97 |
| Balance—end of year | 869 | 56 | 0 | 1,194 | 19 | 203 | 5 | 31 | 2,377 |

[1] Utility includes British Columbia Hydro and Power Authority.
[2] Insurance includes Insurance Corporation of British Columbia.
[3] Liquor includes British Columbia Liquor Distribution Branch.
[4] Transportation includes British Columbia Ferry Corporation, British Columbia Railway Company, British Columbia Steamship Company (1975) Ltd., British Columbia Transit and 178561 B.C. Ltd (formerly Pacific Coach Lines Ltd.).
[5] Finance includes British Columbia Assessment Authority and British Columbia Lottery Corporation.
[6] Industry includes British Columbia Enterprise Corporation, B.C. Pavilion Corporation, Pacific National Exhibition, Duke Point Development Limited and W.L.C. Developments Ltd.
[7] Natural Resources includes Creston Valley Wildlife Management Authority Trust Fund, Provincial Capital Commission and British Columbia Petroleum Corporation.
[8] Housing includes British Columbia Housing Management Commission, Provincial Rental Housing Corporation, Housing Corporation of British Columbia and British Columbia Housing and Employment Development Financing Authority.